

A PROPOSAL FOR A GUARANTEED MINIMUM INCOME  
BY NEGATIVE RATES TAXATION

by

Jennings Patrick Barfield

Thesis submitted to the Graduate Faculty of the

Virginia Polytechnic Institute

in candidacy for the degree of

MASTER OF SCIENCE

in

Economics

APPROVED:

---

Chairman, Dr. Martin O. Schnitzer

---

Dr. Robert J. Litschert

---

Prof. John M. Barringer

August, 1967

Blacksburg, Virginia

## PREFACE

The purpose of this thesis is to explore a guaranteed minimum income proposal which would close part of the "poverty gap"-- the gap between the income of poor families and the income they need in order not to be poor. The proposal, called negative rates taxation, combines into a single program the giving and taking of income by the federal government. The negative income tax proposal is distinguished from other guaranteed income programs in two primary respects: (1) the focus on filling part of the poverty gap, that is, a marginal tax rate (negative) of less than 100 per cent; and (2) the emphasis upon income (in relation to the size of the family) in determining whether an individual or family is eligible for allowances. That is, the plan's benefits are income-based rather than being based upon such characteristics as age, occupation, work history, etc.

Negative rates taxation to support a guaranteed minimum income is a relatively new concept that has emerged due to economic problems which are not solved through normal economic growth. First, technology and automation in our industrial economy have advanced to the extent that those members of the labor force without formal education may not find employment. Many jobs in our mass production industries can be done by machinery negating the need of a large unskilled labor force. Secondly, the realization that approximately one-fifth of our society lives in poverty has stimulated social reformers and economists

to action. According to most estimates the group classified as "low-income individuals" could be lifted above this level by spending only about two per cent of our Gross National Product. Third, many persons feel that regulations governing present welfare programs restrict the individual's right to spend his income as he sees fit. This encourages excessive governmental expenditures to support the bureaucracy under these agencies to police the activities of the recipients sharing in these programs.

The scope of this thesis attempts to cover the different subjects related to the negative income tax, although it falls short of such a task. The first several chapters introduce early utopian ideas on guaranteed economic security, past federal welfare legislation, and a statement of pertinent economic problems which presently persist. Chapter IV describes the principles of the negative income tax, the cost, and administration of the proposal. In connection with this chapter a defense of the proposal is in order. Thus, the last several chapters suggests some of the beneficial results and practical economics of the negative income tax.

The reference material used in this thesis includes books, government documents, unpublished papers and dissertation, periodicals, and unpublished speeches. Government documents and unpublished materials were used as much as possible since they represent primary research materials. From these sources, and the author's knowledge of the negative income tax, this thesis will set forth a proposed guaranteed minimum income by negative rates taxation.

## ACKNOWLEDGMENT

About a year ago \_\_\_\_\_ suggested the negative income tax as a likely thesis topic. I accepted his suggestion, and since that time the subject has broadened as it became clear how the negative income tax related to other subjects. I am indebted to \_\_\_\_\_ for his guidance, and I owe him an intellectual and personal debt.

Also, I am grateful to \_\_\_\_\_ and \_\_\_\_\_ for their comments on all sections of the thesis. I am particularly grateful to the latter for his unrelenting questioning and criticisms. There were several persons with whom I engaged in useful discussion while researching and writing the thesis. Technical problems were discussed with \_\_\_\_\_ of the Economics Department and \_\_\_\_\_ of the English Department at Virginia Polytechnic Institute.

Several persons, all of whom cannot be mentioned, were a source of encouragement in the writing of the thesis. Those mentioned specifically are my wife who had to endure the many inconveniences, and my parents to whom I owe my warmest thanks for a job well done.



## CONTENTS

	Page
PREFACE.....	2
ACKNOWLEDGMENT.....	4
LIST OF TABLES.....	8
LIST OF ILLUSTRATIONS.....	9
CHAPTER	
I. THE QUEST FOR UTOPIA.....	10
Champions of Utopia.....	11
Plato (427-347 B.C.).....	11
Thomas More (1478-1535).....	14
Robert Owen (1771-1858).....	16
Edward Bellamy (1850-1898).....	18
Theodor Hertzka (1845-?).....	19
Utopianism in America.....	21
New Harmony.....	21
The North American Phalanx.....	22
Brook Farm.....	23
II. PROGRESS IN WELFARE LEGISLATION.....	25
New Concepts in Economic Thought.....	25
Social Security Act of 1935.....	27
Employment Act of 1946.....	28
Guaranteed Wages, 1946.....	30
Economic Opportunity Act of 1964.....	31
Medicare, 1966.....	32
Summary.....	33
III. EMERGENCE OF THE GUARANTEED INCOME CONCEPT.....	35
Collapse of Traditional Economic Theory.....	36
Technological Change and Unemployment.....	37
Unemployment and Income.....	42

CHAPTER	Page
Poverty Amidst Affluence.....	46
IV. PRINCIPLES OF THE NEGATIVE INCOME TAX.....	51
The Negative Income Tax Proposal.....	53
The Friedman Plan.....	54
The Lampman Plan.....	57
The Tobin Plan.....	59
Cost of a Guaranteed Income.....	64
How the Proposal Would Be Administered.....	69
Who Would Receive the Benefits.....	70
V. ECONOMIC BENEFITS OF NEGATIVE TAXATION.....	73
Free State and Local Resources.....	73
Reallocation of Resources.....	75
Increase the Consumption Function.....	75
Reduce the Disparity of Income Between the States.....	77
Tax Equity and Negative Taxation.....	77
A Fiscal Stabilizer for the Economy.....	78
VI. POLITICS AND WELFARE.....	80
Expansion of Governmental Powers.....	80
Individual Freedom Versus Security.....	83
Democracy and the Democratic State.....	83
What is Democracy?.....	83
Functions of the State.....	84
Insuring Domestic Tranquility.....	85
Providing for the Common Defense.....	85
Securing the Blessings of Liberty.....	85
Establishing Justice.....	85
Promoting the General Welfare.....	85
Summary.....	87
Economics and Politics.....	87
VII. CONCLUSION.....	89
The Question of Income.....	89
Social Security.....	90
Children's Wages Under \$600.....	91
Scholarships.....	91

CHAPTER	Page
Exemption for Blindness.....	91
Persons Over 65.....	91
The Time Lag and Tax Payments.....	91
Relativity of Poverty.....	92
Alternative Approaches.....	92
Summary.....	93
BIBLIOGRAPHY.....	94
VITA.....	99
APPENDIX.....	100

## LIST OF TABLES

TABLE	Page
1. The Guaranteed Minimum Income and Break-even Income for Different Sizes of Tax-Paying Units.....	55
2. Example of Income Tax Incorporating 50 Per Cent Rate on Negative Taxable Income.....	57
3. How a Negative Income Tax Plan Might Work Through a Decreasing Subsidy As Income Rises.....	60
4. Illustration of Impact of Proposed Income Allowances: Married Couple With Three Children.....	62
5. Expenditures for Public Assistance by States, 1965...	74

## LIST OF ILLUSTRATIONS

FIGURE		Page
1.	Total of Those Unemployed as Shown by Category, 1963.....	41
2.	Ratio of Volume of Employment to Physical Volume of Production.....	43
3.	Proportion of Poverty Group Receiving Public Assistance.....	48
4.	Four Rates Schedules for Negative Rates Taxation.....	66

## CHAPTER I

### THE QUEST FOR UTOPIA

Since the recording of time, mankind has existed in two worlds, the world of reality and the world of ideas and dreams. The former is not as difficult to perceive, since it involves the physical world; and man's physical environment must be conducive to a healthy life. Thus, the limitation of this world is obvious--one cannot leave his environment unless one leaves it forever.

However, the world of ideas and dreams is not so limited; it exists vis à vis the physical world. It is usually the environment of the utopian, whose world has been described as..."the ultimate in human folly and human hope, in which exist vain dreams of perfection in a "Never-Never-Land," or rational efforts to remake man's nature so as to enrich the possibilities of the common life."<sup>1</sup>

The definition of utopia generates insight into the world of the utopian and his dreams. Many of the utopian writers were dissatisfied with the prevailing economic, social and political systems of their day. Hence, in projecting new orders of paradise, they were able to withdraw from the existing environment. They pushed the world of reality into oblivion and entered the ever-fascinating world of ideas.

---

<sup>1</sup>Lewis Mumford, The Story of Utopias (New York: The Viking Press, 1950), p. 1.

This is not to assume that the ideas of the utopians were mere fairy tales, inadvertently unreal and without merit, although many utopians were quite unrealistic in their proposals for a better place to live. For the most part they envisioned an isolated island inhabited by a harmonious populace which was perfectly compatible in every respect. Whether this compatibility would be beneficial or detrimental to economic and social development is debatable, but it certainly is not likely to occur. By nature, man is much too individualistic to accept conformity and complacency that would mold him into a mechanical being. Therefore, the utopian is amiss even before proclaiming his projected society.

The world of utopian is reviewed because it is identified as a state of ideal perfection. There are those who sarcastically criticize the concept of a guaranteed income as a utopian venture, and accuse the proponents of this guaranteed income as trying to establish an ideal state. The idea that people in a prosperous nation should not be wanting of the necessities of life is a utopian product, but the idea is not utopian in that it is a tenable concept. That we may understand the relationship between the guaranteed income and utopian thought, let us review the more well-known utopian writers, and their economic philosophies of an ideal economic and social order.

#### Champions of Utopia

##### Plato (427-347 B.C.)

Plato is considered the originator of utopian thought because of his efforts to prescribe an ideal political and social state. In his

Republic,<sup>2</sup> which advocates a communal society, there is neither rich nor poor. In this community, there are three classes: the rulers or guardians, the soldiers or auxiliary guardians, and the workers. The rulers, in particular, are to own no private property and are disinterested in any personal material wealth. They are supported by the contributions of the city-state at large.

The importance of economic security is not a primary factor inherent in the Republic's contribution, although economic sufficiency was a prevalent factor in the state. All goods were held in common, thereby eliminating the need for a surplus of goods for individual use; and storehouses provided common usage for everyone. The guarantee of economic security was a right enjoyed by the populace, and a surplus or deficit in consumption was abhorred. This economic system presumably restricted the people from becoming envious and enemies of each other. Plato maintained that to enjoy in excess of necessity would bring ruin to the state because persons would become hostile masters, rather than allies, of their fellow-citizens. Thus, luxuries encouraged persons to spend their whole lives hating and being hated, plotting and being plotted against, and standing in more frequent and intense alarm of their enemies at home than of their enemies abroad.<sup>3</sup>

---

<sup>2</sup>See Jerome Davis, Contemporary Social Movements (New York: The Century Company, 1930), pp. 19-22; Russell E. Westmeyer, Modern Economic and Social Systems (New York: Farrar and Rinehart, Inc., 1940) pp. 5-8; and, Lewis Mumford, The Story of Utopias (New York: The Viking Press, 1950), Chapter 2.

<sup>3</sup>Davis, op. cit., p. 20.



The economic base of the Republic was founded on a simple agricultural life in which the workers tilled the soil and exchanged their goods with other producers. This economy provided the necessities for a decent standard of living without inducing unlimited desires for luxuries. By moderating personal wants, everyone in the community would have the same physical standard of living which was inherent to an ideal city-state.

In essence, Plato's planned utopia permitted all to enjoy the fruits of their labor and a right for everyone to receive benefit in accordance with his contributions. This egalitarian approach to distribution is comprehensible in Plato's city-state, although it must be remembered that everyone was capable of being a productive factor for the good of the community. In other words, Plato's plan of genetic selection for parenthood weeded out those that were unproductive due to hereditary malfunctions. These included the mentally retarded and those with physical deformities.

Present society is not selective in this aspect of human reproduction. Therefore, the responsibility of caring for these groups of persons is dependent upon the compassion of charitable organizations, the state, or upon the moral support of relatives. One need only visualize the millions of dollars expended by our government to these classes of people to recognize the dramatic role of transferred resources in our society. Either their income must be guaranteed through some variable source, or we must apply the knowledge of Plato's "planned populace" in order to relieve the state of its responsibilities

as the supporter of our unproductive individuals.

Thomas More (1478-1535)

There is a span of nearly 2,000 years between Plato and Sir Thomas More. During this intermediary period, nothing was written which indicated that utopian ideas were visible, although it can be safely surmised that men were not without dreams of greater economic and social reform. This is discounting the teachings of Christ during this period which some refer to as utopian, where Utopia is the Kingdom of Heaven. Our primary reason for its exclusion rests on the basis that Christ was proclaiming religious reform which does not deal with economic utopian thought.

Thomas More, the originator of the term "Utopia", created his utopia toward the end of the Middle Ages amidst an environment of political and economic discontent. In England, the rich were exploiting the poor in their quest for wealth, the fertile land was being turned over to sheep herds, and one-time farmers were left destitute without resource or direction. Soldiers who had, in the past, fought for the King could find nothing to do. In order to survive, the poor had turned to begging or stealing which was punishable by hanging.

To escape this lurid reality of misery and prosperity, More's imagination traveled to the island of Utopia.<sup>4</sup> The economic base of Utopia was agriculture, and everyone was taught the mechanics of this

---

<sup>4</sup> Mumford, op. cit., Chapter 3. Also, Sir Thomas More, "Utopia," Famous Utopias, pp. 129-232.

trade. While there were those that wished to work at this occupation endlessly, each citizen was required to spend at least two years in the country in order to better understand the methods of agricultural production. It is revealed that agriculture economics was so well advanced that the farmers knew exactly how much to produce each year for the entire economy.

As expected, the island enjoyed full-employment of its people, while those not engaged in agriculture employed their skills in other trades. If the demand for goods was less than the requirements for full-employment, it was the duty of the magistrates of the city-state to utilize the skills of workers for public services, such as road-building. Although everyone worked, work itself was not considered drudgery; and leisure time for other enjoyment was ample.

Recognizing that production had been mastered, how then were these goods distributed? According to More, every city was divided into four equal parts with a marketplace in the center of each. Once every month every producer of goods brought his produce to the market for distribution according to family need. The head of the family took what was needed without either paying for the goods or leaving anything in exchange; there was no need for denial since there was plenty for everyone just for the asking.

The reason for this utopian way of life, as Mumford states, "is that our attempts to live the good life are constantly perverted by our efforts to gain a living; and that by juggling gains and advantages, by striving after power and riches and distinction, we miss

the opportunity to live as whole men."<sup>5</sup> Thus guaranteed security relieves mankind from the vicious competition of attaining a rewarding life.

Robert Owen (1771-1858)

Probably the most popular utopian and social reformer of the early nineteenth century was Robert Owen. Owen's scheme for social and economic betterment was different from most utopians in that he set his system to work. Although he was a dreamer, he was likewise an organizer of men and a reformer with practical and workable notions.

At the time of his experiments in economic reform, England was in the midst of the Industrial Revolution, a historical period characterized by prosperity for a few and extreme poverty for many. Workers, including men, women and children, worked in unventilated, hot, damp and poorly lit factories which were lacking in any safety precautions. Due to keen competition for jobs, the workers settled for work which required laboring as many as fifteen hours in a working day. Population congestion in the cities and towns produced additional misery for the working class due to unsanitary conditions in the neighborhoods.

It was no wonder that some compassionate person should suggest a better environment for human living. Owen did just this in his New Lanark experiment.<sup>6</sup> According to Owen's philosophy of life, when people helped others find happiness, they then could proceed with

---

<sup>5</sup>Mumford, op. cit., p. 78.

<sup>6</sup>Westmeyer, op. cit., Chapter IV.

the real business of life. At New Lanark, Owen established a mill, a community, and an educational and social system that was completely unthinkable in this time. Working hours were reduced, children were sent to school, and the conditions of the home and factory increased favorably in cleanliness and safety.

In addition to the New Lanark experiment, Owen proposed that the government proceed to enact legislation which would render assistance to the economically disadvantaged. This would include soldiers returning from the Napoleonic Wars who were unemployed due to excess supply of labor and to physical deformities.

The suggested method of accomplishing this proposal was that the unemployed be taken off relief and established in cooperative communities, or "parallelograms," so called by those in opposition to his plan. The community was to be situated on 800 to 1,500 acres with a population varying from 300 to 2,000. The apartments were to be well-ventilated, centrally heated, and conveniently located away from the factories where each family could have a garden. In each building would be a common dining hall, kitchen, and reading and recreation room. According to Owen, each community would be as self-sufficient as possible and surplus items would be sold or exchanged with other communities. Those communities not capable of financial independence were to be financed by the government or private philanthropy; and the inhabitants, working cooperatively, would repay the initial cost of organization. Through the enactment of such a plan the nation was relieved of the burden of poor relief; and the poor relieved of the

necessity of accepting degrading charity.

Owen believed that the behavior of the individual was determined by his environment. Thus, creating an order that provided society with a wholesome environment, which included economic subsistence and independence, sanitary housing and working surroundings, and a broad educational system, the goodness of the individual would spring forth.

Edward Bellamy (1850-1898)

Bellamy's Looking Backward is the only American utopian literature that enjoyed much attention.<sup>7</sup> Bellamy was not an economist promoting a new economic order; but, like other utopian writers, he was concerned with the well-being of his community. Although Bellamy outlined the transformation of social, economic, and religious systems in his writing, our interest is his proposal for a unified economic system which revolves around the reorganization of labor markets and the distribution of wealth.

In the late 1800's the growing organization of labor and the expansion of powerful trusts were causing public concern. Starting here, Bellamy quickly converted the capitalists of private enterprise into soldiers of a national corporation. Each worker in the industrial army is an employee of the government, and their labor was distributed according to the needs of a particular industry.

Further, the industrial army which included the entire labor force, is divided into ten departments. At the head of this industrial force

---

<sup>7</sup> Edward Bellamy, Looking Backward (Houghton Mifflin Company, 1887).

is the President of the United States, endowed with all control in Washington. The worker is not paid a salary, but every citizen [worker], whether active or retired, is credited with a sum of four thousand dollars per year at the National Bank — a sum which he receives because of his needs and not because of his productive capacity or ability. With each purchase by the consumer, the amount is punched out of his credit card. If there should be a surplus left in the individual's account at the end of the year, it is saved until the following year, or returned to a common fund. Hence, there is no desire for anyone to hoard or accumulate funds since everyone shares in the national income and the nation guarantees economic sufficiency to everyone throughout their entire life.

Bellamy's passion and inspiration was that he wanted everyone to be equally educated; he wanted everyone decently fed and sheltered; he wanted everyone to take his share of the dirty work; and he wanted to ensure that accidents of wealth did not keep persons from doing their share. Bellamy's desire to assure everyone the necessities of economic subsistence is obvious, and it is also obvious that his compassion for the economically disadvantaged is immense.

#### Theodor Hertzka (1845-?)

Perhaps the only trained economist to publish a utopian work was Dr. Theodor Hertzka, an Austrian economist. According to Hertzka's book, entitled Freeland-A Social Anticipation, a great international organization is formed to establish an industrial community in central Africa whereby every individual has perfect liberty and economic justice.

Freeland, christened Eden Vale, is described as an individualistic Utopia based on a social foundation. Hertzka was a proponent of the doctrines of Adam Smith; and he visualized a society in which the maximum amount of individual freedom and initiative would prevail, especially in industrial enterprise. To insure such freedom, Freeland is a co-operative commonwealth in which the State acts as an interested party in the production and distribution of goods.

Industrial production in Freeland is carried on by large-scale co-operatives which are managed by a board of directors elected by the members. Further, all profits are divided up among the members of the co-operatives in proportion to the number of labor-hours worked, and remuneration is such that each person is guaranteed a comfortable living. Proprietorship is also encouraged in that any person or company is allowed to operate a business only by informing the public of all business transactions. Also, the necessary capital for establishing a business is provided interest-free by the government with only the stipulation that the principal be repaid in annual installments. In Freeland, the incentive to individual activity is individual self-interest.

In Eden Vale the government is the key administrator of affairs. It supervises the buying and selling of goods in the public markets through the exchange process of any exchange economy. It also provides services for individual members of the community, including the preparation of meals, cleaning of houses, and transportation. These costs are paid for by the individual via tax deductions from the person's bank account in proportion to the individual's net income.



Since the people are organized into associations, there is, as a rule, no kind of ownership of land; rather, they abide by the principle that land will be given to everyone to do with as he chooses. Since regulations determine the use of the land, the individuals use the land according to its determined utility.

In Freeland the slums have been abolished, and everyone belongs to a middle class society. The comforts of human life are taken care of, and economic security has been granted as a right, without destruction of self-interest and human incentiveness.

#### Utopianism in America

Although the United States has contributed only one famous utopian (Bellamy), Utopianism did enlist a small following in this country. These movements were established by private philanthropy and neither the mass of the American people nor the government rallied to their support. The reason for this withdrawal at the peak of Utopianism in America is obvious; individual incentive and self-interest, was, and is, considered the dominating philosophy for economic well-being; other economic and political systems are generally considered as being suppressive to individual freedom.

#### New Harmony

When Robert Owen's attempt to win support for his cooperative villages in England failed, he set out to finance another New Lanark experiment himself, only this time his adventure took him to the United States. It so happened that a religious sect known as The Rappites were ready to dispose of their completely established community of Harmony in Indiana. Owen bought the village and changed

its name to New Harmony and prepared to establish it on the same economic and social order as New Lanark.

This community had a favorable advantage for existence since ample financial resources were available, but after only three years in operation it was a failure. This failure was due to several reasons; firstly, Owen did not manage the affairs and disunity grew between its members; secondly, the community passed into communism; and lastly, many of its members were there strictly to receive the generous benefits of a compassionate philanthropist. Hence, New Harmony, with all its intentions based on a new economic order of economic security and social harmony, was a dismal failure.

#### The North American Phalanx

Another utopian settlement began to take shape in 1843, established by the followers of Charles Fourier, A French businessman. Fourier believed that men were naturally good and did wrong only because their natural passions were strained by existing society. Thus, he concluded that all the misery of the world could be eliminated by working out a new society or communities called phalanxes. Every worker was to find work that pleased him, and he could change jobs as often as he pleased. Also after a common product was set aside for each member of the phalanx, the surplus was divided between labor, capital and talent, everyone thereby receiving a portion of his labor.

One of the most notable followers of Fourierism was Thomas Greeley. He helped to establish the North American Phalanx near New York City which lasted from 1843 to 1856. The failure of this utopian community

was that the wages offered to its members were menial as compared to wages outside the community. Religious controversy also began to separate the populace, and members began to disband. Again, the idea of a perfect habitat had been blown to the wind.

### Brook Farm

About the same time that the teachings of Fourier secured followers, a group of idealists, which included such men as Waldo Emerson, Henry Thoreau, and Nathaniel Hawthorne, formed the Transcendentalists Club. George Ripley, a Unitarian minister and one of the Club's leaders, resigned from the ministry and set out to establish a community ruled by the theories of the Transcendentalists. The community was located near Boston and was called the Brook Farm Institute for Agriculture and Education. Its main objectives were to substitute a system of brotherly cooperation for one of selfish competition, to apply the principles of life and justice to society, and to carry on a broad program of education.<sup>8</sup>

The property of Brook Farm was represented by shares held by the members of the community. Members were provided with work in accordance with their abilities and likes, and all wages were uniform for all workers. As expected, everyone was cared for whether they were young, or old or incapacitated.

Brook Farm was comparatively successful in that its membership grew, and it became financially independent. Its members were

---

<sup>8</sup>Westmeyer, op. cit., p. 61.

satisfied with the communistic type setting. In addition, they were a calibre of people capable of self-government and utilizing their human resources. But, in America, Fourierism was on the wane, and Brook Farm went with the disenchantment.

These are only three of the more notable utopian communities established in the United States. As seen, the followers of these movements were small in number. However, this does not imply that people were anti-utopian per se. Everyone wants the best out of life, aesthetically and materially, but so does everyone have their individual ideas on how to attain these goals. For most Americans it was not via the communistic or socialistic communities or villages as proposed by the Utopians, but rather by the discipline of individual ingenuity, initiative and self-interest.

## CHAPTER II

### PROGRESS IN WELFARE LEGISLATION

#### New Concepts in Economic Thought

President Hoover, in his Madison Square Garden address in 1932, felt obligated to apologize for the past economic concepts when he announced:

"...My conception of America is for a land where wealth is not concentrated in the hands of a few, but diffused among the lives of all."<sup>1</sup>

Huey Long, then Governor of Louisiana, interpreted this to mean that:

"...where there was an abundance of food, all the people of the land would be fed; that where there was an excess of clothes, all the people of the land would be clothe; that in a land of too many houses, none would be without shelter above their heads; that all would be possessed with comforts for the day time and the night time, so long as this was a land of plenty."<sup>2</sup>

Intuitively, Long must have envisioned the day of a more equal income redistribution when he publicly proposed an income tax that would limit the personal income of a person.

Be that as it may, the economic concept of a more equal distribution of income within the capitalistic system is relatively

---

<sup>1</sup>Huey P. Long, Every Man a King (New Orleans: National Book Company, Inc., 1933), p. 316, quoting President Hoover.

<sup>2</sup>Ibid.

novel in its application. Prior to the turn of the century, economic subsistence was regulated by competitive forces in the market. To believe that external intervention, whether by government or by planned economics as prescribed by Fourierism and Owenism, could provide a better system of resource allocation was heretical. This is partially revealed in the failure of past Utopian movements in America.

Also, few persons thought that a tangible contribution had been made when Bellamy's Looking Backward was published. As stated in Chapter I, he proposed that the most expedient method to rid society of its undesirable elements, and bring forth utopia, was for the nation to guarantee the nurture, education, and comfortable maintenance of every citizen from the cradle to the grave.<sup>3</sup> Although Bellamy was not a qualified economist he was a citizen promoting government supervision of the economic system. But laissez-faire economics was to prevail for many years as the philosophy for individual betterment.

Forty-odd years after Bellamy's publication had achieved popularity, the United States was in the midst of an economic turmoil. The depression came and the states, which had been exclusively responsible for their disadvantaged citizenry, could not meet their responsibility for support of all the poor. In midwinter, 1935, 22 million people throughout the United States or approximately 19 per cent of our entire population, subsisted on relief. In some

---

<sup>3</sup>Edward Bellamy, Looking Backward (New York: Houghton Mifflin Company, 1889), p. 90.

localities it is reported that one-half of the population was on relief.<sup>4</sup>

It was in this frightful situation that the leaders of our nation began to lose their puritanical beliefs that the individual was solely responsible for his economic survival. From this the present social welfare movement developed and new revolutionary concepts of economic and social policy emerged.

#### Social Security Act of 1935

The Social Security Act was the first legislative action by the federal government where it recognized an economic responsibility to the people. The act was also a first in federal-state cooperation in administering economic assistance to persons needing economic relief.

The Act dealt primarily with three aspects; 1) security for children; 2) old-age security; and 3) unemployment compensation. It provided for federal aid to improve the provisions made by states for aid to dependent children. It also granted aid for child health services, crippled children services and welfare services for care of the homeless, dependent and neglected children in predominantly rural areas. In addition it provided aid to states which had a state plan for old age assistance, if their plans conformed with standards set by the federal act. The second part of the old-age assistance section provided eligible persons with a monthly retirement allowance. To become eligible for these allowances the person had to be gainfully employed for a certain number of years and be sixty-five years of age.

---

<sup>4</sup>Edwin E. Witte, Social Security Perspectives, ed. Robert J. Lampman (Madison: University of Wisconsin Press, 1962), pp. 5-6.

The third major section of the act dealt with unemployment compensation. This was a federal-state plan whereby the state taxes a part of an employee's income in order that he may wilfully draw compensation during periods of unemployment. Possibly, the person most benefited by such an arrangement is the industrial worker who is subject to periodical unemployment due to seasonal fluctuations. At least it is beneficial in that the worker is guaranteed a source of income during those periods of greatest need.

In retrospect, the Social Security Act was a first in organized social and economic reform. Since the passage of the Act the federal government has expanded its activities to include such measures as medical and hospital care for our senior citizens.

#### Employment Act of 1946

The second landmark in economic progress to be enacted by the federal government was the Employment Act. This act has declared in its declaration of policy the intended responsibility of the federal government. It states:

"The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and state, and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment for those able, willing and seeking to work, and to promote maximum employment production, and purchasing power."<sup>5</sup>

---

<sup>5</sup>U.S., Statutes at Large, Public Law 304, pp. 23-6.



Assuredly, this policy is a break with the concepts of traditional economics. The role of non-intervention in economic affairs has now turned into one of spirited action by a responsible government.

Dr. Leon Keysterling, in an address at the Twentieth Anniversary of the Employment Act, has emphasized the change in economic thinking when he said:

"...from the very start these leaders [sponsors of the Employment Act] never contemplated any narrow tests of economic progress. They were interested not only in how fast we were going but also in what directions; not only in the size of the GNP but also in the speed at which we abolished poverty; not only in jobs but in what we produced; not only in total national income but in how it was distributed; not only in the aggregates but also in the components."<sup>6</sup>

In appraising the merits of the declaration of policy of the Act, does the phrase--"to use all practicable means, consistent with its needs and obligations and with other essential considerations of national policy...to promote maximum employment, production and purchasing"--imply that the government will furnish everyone with a job? No; it means that the government recognizes that three primary economic goals exist in our economy; namely, full employment, price stability, and economic growth. It also recognizes that the composite of these goals is mutually exclusive; therefore, in order to reach the desired objective the government can use its tools of fiscal, monetary, and debt-management policies to produce maximum economic results for the welfare of the entire economy. Thus, we have digressed from traditional

---

<sup>6</sup>Joint Economic Committee, Twentieth Anniversary of the Employment Act of 1946 (Address by Dr. Leon Keysterling), 89th Cong., 2d Sess., 1966, p. 17.

economic thought and entered another period of economic application whereby private enterprises have been granted a partner.

Guaranteed Wages, 1946

Another new economic concept began to develop in 1946--guaranteed annual wages to employees. Although the federal government was concerned with such a movement, private enterprise and trade unions were the predominant supporters. These groups, particularly the unions, saw the guaranteed wage plan as a cure-all for depressions and economic fluctuations.

What does the concept of a guaranteed annual wage mean? It generally means that an employee is guaranteed full take-home wages or employment approximating full time on a year-round basis. But the definition was also the limitation; e.g., how long should the employee continue to receive full wages? Another complication was in regard to eligibility for these benefits.

Walter P. Reuther of the United Automobile Workers Union, issued the following statement:

"We failed to solve the problem of unemployment and part time layoffs...largely because those who have the power to solve have not had to pay the cost of failing to solve it.

The annual wage attacks the problem at the root and shifts to the employer, where it belongs, the cost of employment."<sup>7</sup>

The argument that management can eliminate unemployment and economic insecurity is like saying that unemployment compensation

---

<sup>7</sup> Chamber of Commerce of the United States, The Guaranteed Wages (Washington, D.C., 1953), p. 15.

could do the same thing. Later a similar proposal, the guaranteed income, is set forth, but it must be recognized that it is only another economic tool and not a cure-all for economic misfortunes. This proposal will encompass similar imperfections and complications as those expressed in the guaranteed wage. One such debate is defining a minimum income level; how much income is necessary for an adequate standard of living; will geographical locations present a dispersed range for economic subsistence? These questions reappear in later chapters.

#### Economic Opportunity Act of 1964

A more recent undertaking by the federal government to promote economic well-being was the Economic Opportunity Act of 1964. This Act involves mobilizing the human and financial resources of the Nation to combat poverty in the United States. The statement of purpose of the Act states:

"The United States can achieve its full economic and social potential as a nation only if every individual has the opportunity to contribute to the free extent of his capabilities and to participate in the working of our society. It is therefore the policy of the United States to eliminate the paradox of poverty in the midst of plenty in this Nation by opening to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity. It is the purpose of this Act to strengthen, supplement, and coordinate efforts in furtherance of that policy."<sup>8</sup>

To accomplish this declaration of policy the government has established the Job Corps to train and educate enrollees--a job once

---

<sup>8</sup>U.S., House, Committee on Education and Labor, Economic Opportunity Act of 1964, (Hearings on H.R. 10440), p. 3.

undertaken by private enterprise. The enrollee is provided with living quarters, subsistence, clothing, medical and dental services, and travel allowances. Another part of the Act provides work training programs for unemployed youths. These programs are a co-operate venture with State and local agencies and private nonprofit organizations to develop programs of employment for the youth of our Nation.

Other facets of this Act provide assistance to Urban and Rural Community Action Programs. These programs involve promoting Welfare, education, vocational training, health, and home management to low-income level individuals and families.

These are only two aspects of the Act, although it covers a multitude of programs which are aimed at bringing persons above the level of economic subsistence. The importance of citing the Act lies in the fact that economists and national leaders have greatly directed their attention toward more government intervention as an aid to economic security.

#### Medicare, 1966

Medicare, or the Social Security Amendments of 1965, is the most recent federal program demonstrating the government's acceptance of responsibility for providing medical treatment for the aged. It is an additive or amendment to the Social Security Act, which states:

"...an act to provide a hospital insurance program for the aged under the Social Security Act with a supplementary health benefit program and an expanded program of medical assistance, to increase

benefits under the Old-Age, Survivors, and Disability Insurance System, to improve the Federal-State public assistance programs, and for other purposes."<sup>9</sup>

Although the passage of the Act is recent, the concept was initiated during the period of World War I. Many persons, labor unions, and social workers thought that compulsory health insurance would follow the unemployment compensations programs, but public opinion did not support the proposal. Also, during the Truman Administration more far-reaching measures in the field of health insurance were attempted but again failed.

#### Summary

The primary purpose of reviewing these legislative acts was to provide the reader with a brief history of the progress that has been made in socio-economics. With each enactment of new legislation the federal government has accepted more and more responsibility-- responsibility that once was considered sacredly endowed to each State or individual. Some might say that past movements to shift the responsibility of economic security from the individual to the government were not changes in economic thought. Rather, it was a political movement for securing popularity, but it must be remembered that economists were prime initiators of such thinking. Speaking at an Economic Symposium recently, Dr. Henry C. Wallich, Professor of Economics at Yale University, stated:

---

<sup>9</sup>U.S., Senate, Committee on Finance, Social Security (Hearings on H.R. 6675), 1965, p. 1.

"In time, I expect, our goals will become more social and less purely economic...Economics is a discipline that seeks to trace far flung interdependencies, remote often in point of impact as well as in time. If these lead to conclusions sometimes beyond the borders of economics, they are nevertheless worth following up. There are no disciplinary boundaries in National legislation."<sup>10</sup>

---

<sup>10</sup>Joint Economic Committee, op. cit., p. 18.

## CHAPTER III

### EMERGENCE OF THE GUARANTEED INCOME CONCEPT

Legislators in the past three decades were not compelled to promote and enact welfare economic programs for the sake of popularity. Prevailing economic conditions dictated a search for something better. The same reason applies to the concept of a guaranteed income, namely, that our present economic order has not adjusted to meet the problems of our age.

Robert Theobald, an ardent advocate for the guaranteed income, has concluded that our present socioeconomic problems stem from our success in increased abundance of material wealth.<sup>1</sup> In opposition to this view, many social critics claim that the present need for economic and social reform stems from past failures in economic and social policy.<sup>2</sup> Without taking sides on either issue, I surmise that each view has merit. But, strictly from economic inspection, increasing affluence and the product of economic growth have induced economic problems for which many persons are not adequately prepared. These problems are discussed in detail below.

---

<sup>1</sup>Robert Theobald (ed.), The Guaranteed Income--Next Step In Economic Revolution? (New York: Doubleday & Company, Inc., 1966) p.83.

<sup>2</sup>Eveline M. Burns, "Social Security in Revolution: Toward What? A reprint from the Social Service Review, Vol, XXXIX, No. 2, June 1965, pp. 129-40.

### Collapse of Traditional Economic Theory

Before the 1930's, the economic theory of Say's Law was the dominant analysis of equilibrium, and the "invisible hand" presented by Adam Smith was the most efficient avenue of obtaining what we needed. Say's Law of the Market<sup>3</sup> states that "supply(of goods and services) creates its own demand." Acceptance of this proposition must also conclude that there is always zero excess demand for and supply of money, which is valid assumption only if we trade in a barter system.

Innovation in marketing techniques and the establishment of sophisticated business and consumer credit had antiquated the basic explanations of Say's Law. Pursuant to World War I, despite fruitful innovation, supply was far ahead of effective demand.<sup>4</sup> In addition, it is stated that the supply of money had declined due to government intervention, thereby the demand or need for money was excessive.<sup>5</sup> Discounting the differences of opinion and analysis, the economy collapsed and what followed was the Great Depression.

It was this event that led economists to become concerned with the problem of maintaining purchasing power. Say's Law, which had propounded that supply and demand will automatically balance, had

---

<sup>3</sup>My interpretation is that enunciated by most Keynesians. J.A. Schumpeter has interpreted this law differently.

<sup>4</sup>Even today it is estimated that there is the ability to produce [supply] at least \$60 billion more goods than can be sold. See Theobald, Free Men and Free Markets, p. 47.

<sup>5</sup>Milton Friedman, Capitalism and Freedom (Chicago: The University of Chicago Press, 1962), p. 50.



been refuted by economic experience. In the words of Keynes;

"It may well be that the Classical Theory represents the way in which we should like our economy to behave. But to assume that it actually does is to assume our difficulties away."<sup>6</sup>

This change in economic thinking is attributed to Keynes' book the General Theory of Employment, Interest and Money. In the General Theory it was illustrated that it was possible for unemployment to persist over long periods of time because effective demand would not necessarily rise as fast as potential supply.

Since the overwhelming acceptance of Keynesian analysis by economists, it was quite clear that a policy to insure a balance of potential supply and demand should be enacted. In other words, the private enterprise system alone did not satisfactorily balance the flow of capital into investment in plants and equipment which add to our productive capabilities, and the flow of funds which determines effective demand to keep the plants fully operating and the manpower fully employed. The enactment of the Employment Act of 1946 as stated in Chapter II was an attempt to keep these forces in balance.

#### Technological Change and Unemployment

One of the primary factors contributing to the current enthusiasm over a proposed guaranteed minimum income has been the concern of many economists regarding the unemployment problem since the Korean conflict. Specifically, they have concluded that the continuing rapidity of

---

<sup>6</sup>J.M. Keynes, The General Theory of Employment, Interest and Money (New York: Harcourt, Brace and Company, 1936), p. 31.

advanced technology of our industrial complex will make it impossible to provide jobs for all persons willing to work.<sup>7</sup> If this conclusion is correct, it would suggest that the socioeconomic structure of our economy needs vital and commensurate readjustments.

In order to properly evaluate the unemployment problem, let us analyze prior to unemployment rates on an aggregate basis. Despite the relatively superior performance of our economy, unemployment rates since mid-1957 have averaged considerably higher than earlier in the postwar period and each succeeding business cycle.<sup>8</sup>

This basic assumption which was made by Knowles and Kalacheck is supported by their findings, which states:

"...that measuring from peak to peak, the unemployment rate averaged 4.2 per cent during the 18 quarters of the 1948-53 cycle, 4.4 per cent during the 17 quarters of the 1953-57 cycle, and 5.9 per cent during the 11 quarters of the 1957-60 cycle... Higher levels of unemployment have been accompanied by an increased duration of unemployment, with consequent depletion of family financial resources. The average duration of unemployment was over 11.5 weeks in the 1953-57 cycle, and over 13.5 weeks in the 1957-60 cycle."<sup>9</sup>

---

<sup>7</sup>Theobald, op. cit., p. 17.

<sup>8</sup>For an authoritative report for causes of unemployment, see James Knowles and Edward Kalacheck, Higher Unemployment Rates, 1957-60: Structural Transformation or Inadequate Demand, JEC, 1961. Also, The National Commission on Technology, Automation, and Economic Progress, Technology and the American Economy, 1966, pp. 9-33.

<sup>9</sup>James Knowles and Edward Kalacheck, Higher Unemployment Rates 1957-60: Structural Transformation or Inadequate Demand, JEC, 1961, pp. 4-8.

Although 1961 was a recession period in the business cycle, the unemployment rate for calendar years 1960-65 averaged approximately 5.6 per cent despite the longest economic expansion cycle on record. Only in the past year has the rate dropped to the 4 per cent level for a significant time.

Explanation of these higher unemployment rates has revolved around two economic theories of unemployment; the aggregate demand and structural transformation theories.<sup>10</sup> The aggregate demand theory is that total expenditures in the economy for goods and services are not sufficient to generate an adequate number of jobs. Maintaining sufficient economic growth to support higher levels of demand for goods and services is by far the most important determinant of the level of employment, the duration of unemployment, and the difficulty of new entrants finding jobs in the labor market. Admittedly, there are periods when aggregate demand does not progress as rapidly as the potential supply of resources, thus the demand for labor may not be sufficient to provide jobs for everyone willing to work. Emphasis on this theory of unemployment cannot be over-stressed, although it does not provide the sole explanation to unemployment. Why? There is increasing evidence that rapid technological change has caused unemployment which cannot be adequately explained by the aggregate demand theory.

---

<sup>10</sup>The Economic Report of the President, 1964, Appendix, A, describes these approaches as demand-shortage and structural unemployment and discounts the structural transformation theory as a third theory of unemployment. This view is also taken in Arthur M. Ross. (ed.), Employment Policy and Labor Market, 1964, Chapter 7.

This alternative explanation to unemployment is described by the structural transformation theory. This theory maintains that higher unemployment has been due to technological changes which are re-shaping the American economy at a rapid pace. The crux of the transformation is the continued rise in importance of white-collar occupations and service-rendering industries, and the decline in importance of blue-collar occupations and goods-producing industries. Thus, the explanation of higher unemployment since 1957 is as follows: "(1) a faster rate of technological change has led to a higher rate of displacement of labor; (2) the average worker, once displaced, experiences a number of weeks of unemployment while hunting for a new job; (3) most of the displaced workers possess blue-collar backgrounds."<sup>11</sup>

This is the basic assumption which has enlisted many experts to consider a feasible plan that would insure the employed an annual minimum guaranteed income.

The total effect that structural unemployment has on the unemployment problem is sometimes speculative since the accurate model to measure the dispersement has not been produced. This is not to imply its vagueness or unimportance as an explanation of unemployment, since various trends substitute for mathematical erudition.

First, during the first nine months of 1963, of all those unemployed 25 per cent were in manufacturing. But 16.8 per cent were in wholesale and retail trade, and 15.3 per cent were in service industries. This provides an explanation to the fact that those

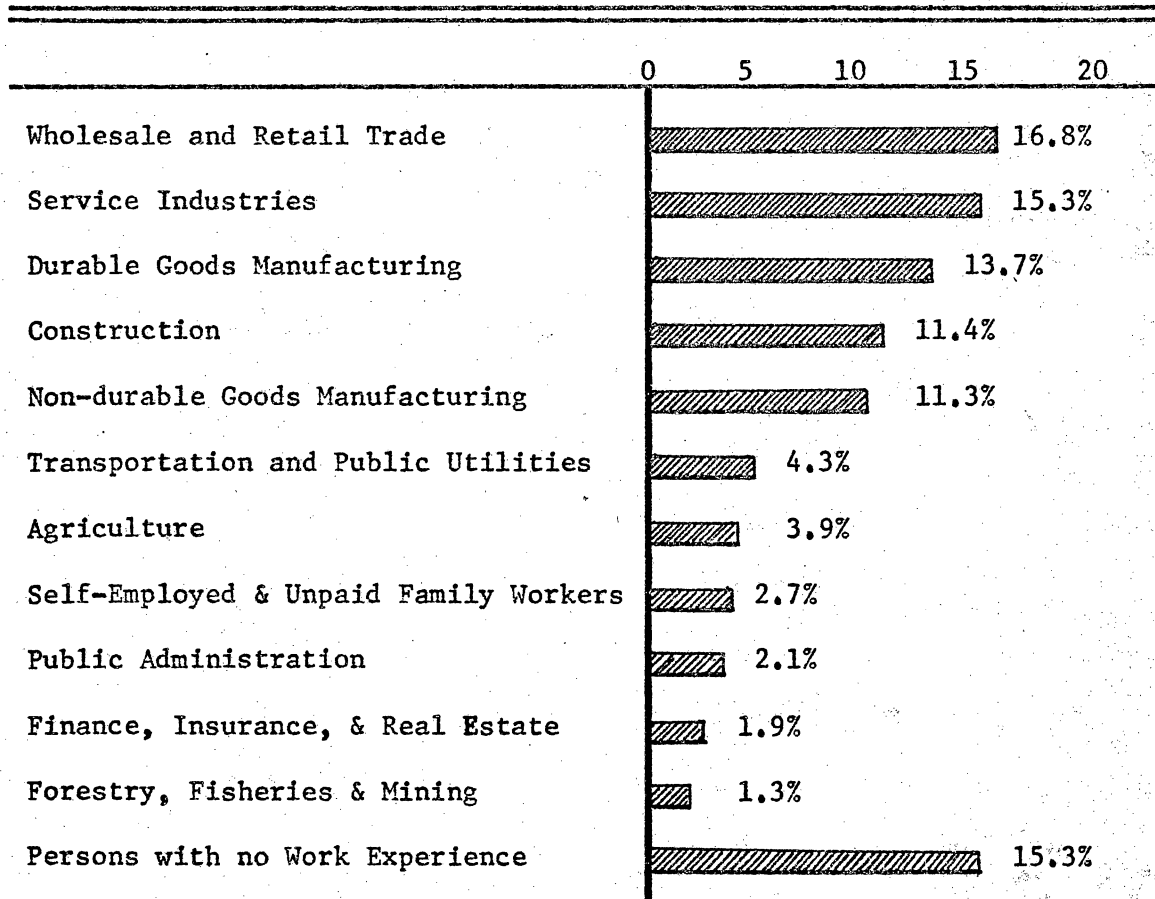
---

<sup>11</sup> Knowles and Kalacheck, op. cit., pp. 6-7.

forced out of blue-collar jobs would find employment in the white-collar occupations. Furthermore, persons with no previous work experience accounted for 15.3 per cent of total unemployment. See Figure 1.

Figure 1.

Total of Those Unemployed as Shown by Category, 1963



Source: Conference on Economic Progress, 1963

A trend which reveals the impact of technology and automation on the economy is shown in Figure 2, and as, expected, this trend reaffirms the unemployment rates depicted in Figure 1. Given the volume of

production in 1947 that a given number of employed people could turn out, and comparing this same analysis to a later period will show the increased impact on unemployment. The chart shows that by 1962 the ratio of employment to output fell to 51.7, or about half as many workers were needed in 1962 to turn out the same amount of production as in 1947-1949. Other industries, such as mining, manufacturing and transportation, also experienced similar advancements.

These economic trends are not by any stretch of the imagination sufficient to support the strict transformation thesis, although an analysis of industrial sectors will vividly reveal the impact of automation and technological change on the labor force.

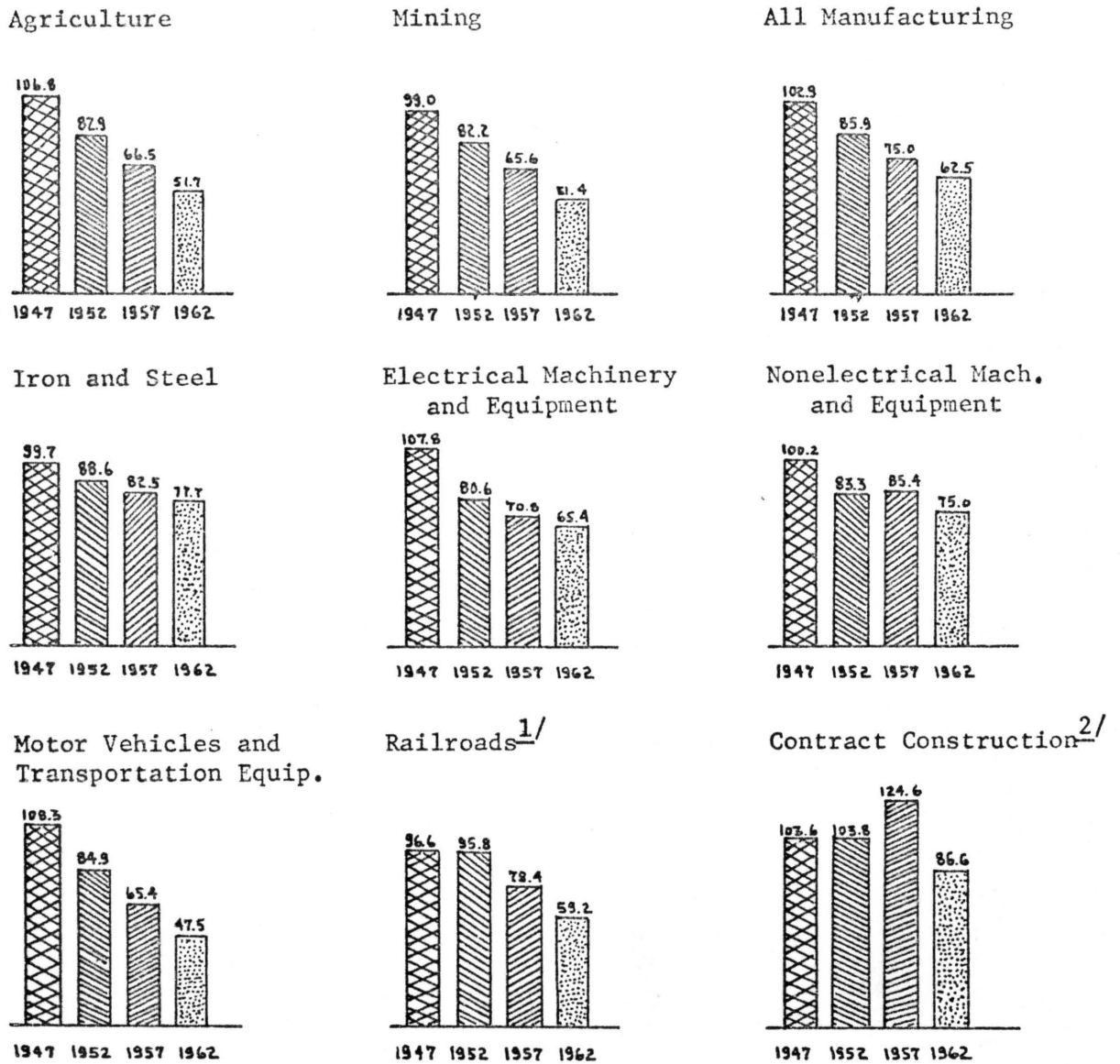
#### Unemployment and Income

Our analysis of the aggregate and demand and structural theories of the unemployment problem must now lead us to emphasize the seriousness of being unemployed. Only a minute fraction of our population is assured a sizable income should they discontinue working. These are the very rich who enjoy the returns of a favorable investment or inherited fortune. Thus, the work a man does largely determines his income and subsequently the standard of living he can maintain.

Figure 2

Ratio of Volume of Employment to Physical  
Volume of Production

(1947-1949 Ratio of Employment to Production = 100)



Source: Conference on Economic Progress, 1963.

<sup>1/</sup>Ratio of volume of employment to traffic volume.

<sup>2/</sup>Roughly approximated by relating employment in contract construction to number of new dwelling units.

A study by the Bureau of Labor Statistics in 1961 showed that the 9.6 million persons unemployed a month or longer for that year averaged \$2,300 in income from all sources, an amount nearly 40 per cent lower than the \$3,700 average income for all other persons with income who had some work experience during the year.<sup>12</sup> Furthermore, of income received, 80 per cent came from their own wages, 12 per cent from unemployment insurance, and most of the remaining 8 per cent from welfare and pension programs.

As expected, the economic consequences of unemployment fall heaviest on those persons who are heads of households, and about 55 per cent of those unemployed during 1961 were in this category.

The average income of this group was \$4,100 with an estimated average loss of potential earnings through unemployment at about \$1,100 to \$1,300 for the year.<sup>13</sup> In order to compensate for their loss of income many of these families were assisted by unemployment compensation which offset about two-fifths of their earnings lost. Also, to support their past standard of living, these families supplemented current incomes by reducing savings (51 per cent), borrowing funds (27 per cent), help from friends outside the household (20 per cent), and cash assistance from

---

<sup>12</sup>J.M. Becker, In Aid of the Unemployed (Baltimore: The Johns Hopkins Press, 1965), p. 37.

<sup>13</sup>Ibid.



welfare agencies (7 per cent). A later report maintains that the unemployed adjusted to their situation after receiving unemployment compensation, by reducing their consumption (70 per cent), by drawing on past savings (20 per cent), and by going into debt (about 10 per cent).<sup>14</sup>

It is evident that the unemployed suffer greatly when the dynamic advancements in our economic system obliterate the usefulness of past services. It is also revealing that much of this economic deprivation is a product of the present inadequacies of unemployment measures. In no way discrediting the intention of unemployment compensation, it has not in my opinion achieved the objective that it was intended to achieve.

Most state laws aim at providing unemployment benefits equal to 50 per cent of the worker's previous earnings, but in 1964 the average benefit for the United States was only about 35 per cent (\$35.27) of average weekly wages in manufacturing.<sup>15</sup> Coincidentally, vis à vis the transformation theory and the increasing duration of unemployment, those with 15 weeks or more of unemployment constituted less than a seventh of unemployed during the early 1950's, whereas they have accounted for more than a fourth of the unemployed since 1957. In the last few years, moreover, about a half of those experiencing long-term unemployment have done so for 27 weeks or

---

<sup>14</sup>U.S., Department of Labor, Manpower Report of the President, March 1966, p. 52.

<sup>15</sup>Margaret S. Gordon (ed.), Poverty in America (San Francisco: Chandler Publisher Company, 1965), p. 123.

more.<sup>16</sup> This is a critical situation since the average maximum period of eligibility is only 24 weeks, except in special circumstances.

In recognizing these deficiencies in our present insurance system and the low-income status of the unemployed in our economic system is it not of urgent importance to seriously evaluate the social and economic effects of an annual guaranteed income?

#### Poverty Amidst Affluence

A second factor for the realization of an annual guaranteed income is the awareness of the extreme poverty which exists in our nation, and that it could be eliminated by spending two per cent of the Gross National Product or about \$12-15 billion.<sup>17</sup> Although the economy is experiencing one of the longest periods of economic growth, there are still more than 34 million citizens classified as below the minimum level of living.<sup>18</sup>

There are many reasons for the causes of poverty, but the major factors that bring people to welfare agencies seeking public assistance for the relief of their economic plight include--migration to the cities, automation, social isolation, racial discrimination, age, and the lack

---

<sup>16</sup> Ibid., p. 260.

<sup>17</sup> See Robert Theobald (ed.), The Guaranteed Income, p.18; and Robert J. Lampman, Negative Rates Income Taxation (Unpublished paper prepared for the Office of Economic Opportunity, August 1965), p. 5.

<sup>18</sup> The Social Security Administration defines the annual minimum level of living as \$1,540 for non-farm individuals and \$1,080 for farm individuals; \$3,130 for a four-person non-farm family and \$2,190 for farm families of the same size.

of education in an economic structure that has an ever-shrinking number of places for the unskilled.<sup>19</sup> But those that qualify for public assistance are still better off than those that are not eligible under present law.

One advocate of the guaranteed income, but against the present system of public assistance has stated;

"You shouldn't help them because they are old. You shouldn't help them because they are farmers. You shouldn't help them because they happen to live in one part of the country...The relevant reasons for helping somebody is that he is hard up; and if he is hard up, the way to help him is to give him some money."<sup>20</sup>

The major concern is that while the federal government is spending about forty-five billion dollars through transfer payments to the disadvantaged there is still poverty--even after the Council of Economic Advisers state that \$12 billion would eliminate the income deficiency gap. Discounting the \$8 billion public assistance and social security this would still amount to about \$20 billion needed. Figure 3 reveals that approximately one-fifth of the entire population are subsisting on incomes which are considered insufficient to provide a minimum standard of living.

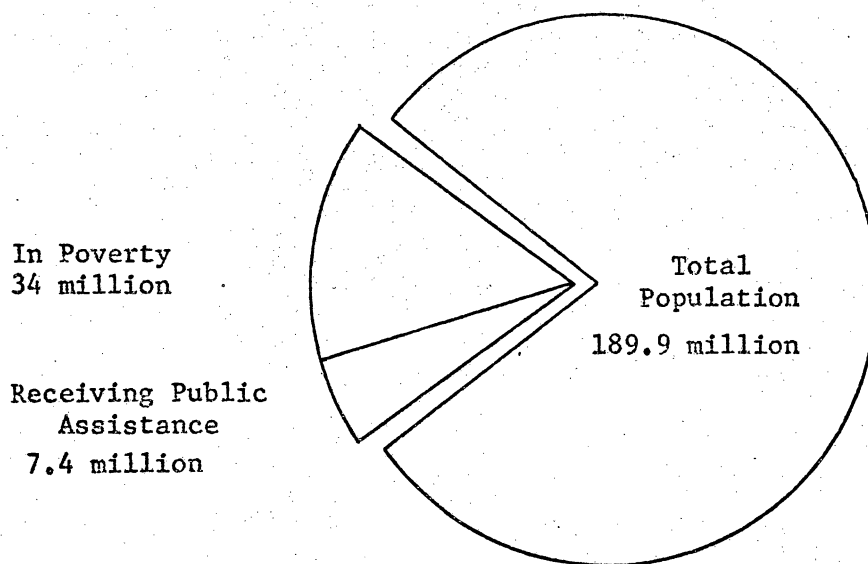
---

<sup>19</sup>U.S., Department of Health, Education and Welfare, Welfare Administration, Report of the Advisory Council on Public Welfare, June 1966.

<sup>20</sup>Milton Friedman, "Transfer Payments and the Social Security System," Paper read at the Eight Annual Economic Conference of the Conference Board in New York City, May 20, 1965.

Figure 3

Proportion of Poverty Group Receiving  
Public Assistance, 1964



Source: U.S. Department of Health, Education and Welfare, Welfare Administration, Report of the Advisory Council on Public Welfare, 1966

Of this amount, 7.4 million persons are dependent on a low level of public assistance and an additional 26.6 million are living below the poverty level as defined by the SSA and the CEA.

A demographic view of the problem will clarify who these poor members of society are. In general, the incidence of poverty is greater among the nonwhites, the unemployed, the families without a man as head of household, the broken homes, the aged, and very large families.<sup>21</sup>

<sup>21</sup>Mollie Orshansky, "Who's Who Among the Poor: A demographic View of Poverty," Social Security Bulletin, XXVIII (July 1965).

Categorically, of the 34 million persons classified as poor, 15 million were children under the age 18 living in households. More than 5 million of those in poverty were at least 65 years old. As for unemployment and poverty, in March 1964, a total of 4.2 million persons aged 14 or older were reported unemployed--a fourth of these were in a poor household.

There are also many employed persons who remain on the threshold of poverty due to lack of education, thus receiving low wage rates. Also, 1.9 million men who were family heads and worked full-time represented more than 1 in 3 of all men at the head of a family in poverty. Their families averaged five persons each, and nearly 2 out of 4 had at least four children under age 18 to support. Close to 48 per cent of these fully employed yet poor family men were working, as expected, as farmers, service workers, or laborers.

Another distasteful picture of poverty occurs at the door of the broken home. In 1964, about 6 per cent of the white children and more than a fifth of the nonwhite children were living only with the mother. To worsen the situation, mothers without a husband present have borne more children than women still living with a husband.

Of the 1.5 million children under age 6 in a family headed by a mother, 600,00 had a mother either working or looking for a job. Seventy per cent of these children were in the poverty status. A further look will reveal that in 1960 more than a third of the nonwhite mothers in broken homes and about a sixth of the white

mothers had not gone through the eighth grade of school.<sup>22</sup> What earnings can that mother demand with such limited skill?

In a review of the poverty problem, it is not accidental that responsible persons have become concerned over the economic deprivation of a large number of our citizenry, especially when affluence is evident at every corner. Consequently, what is to be done about it? To paraphrase Friedman:

Most public discussion about programs to relieve poverty consists of lengthy recitals of the fact that there are people who are poor, that the poor have less food than the rich, that the poor have less clothing than the rich, and so forth--all of which are eminently true. Very little of the discussion asks the question: "Will those programs in fact have the effect which their proponents desire?" So, we adopt new programs, each one of which has a shiny, ready-built guarantee that it will work where the others didn't.<sup>23</sup>

Therefore, as an alternative, or possibly a supplement with limitations, to the variety of existing income transfer programs the guaranteed income would include everyone without regard to limitations except a minimum level of income. This does not imply that our problems are over, or that the guaranteed income is the only alternative to existing problems. It does imply that given an adequate income these persons may be able to better their conditions by participating in other governmental and private programs.

---

<sup>22</sup> Ibid., p. 17.

<sup>23</sup> Milton Friedman, op. cit., p. 7.

## CHAPTER IV

### PRINCIPLES OF THE NEGATIVE INCOME TAX

Chapter I demonstrated the visions of a society trapped by the "dismal science." These generations tried to eliminate the threat of economic deprivation to no avail, and our present economic structure is entangled in economic problems which are not being resolved under existing federal and state programs. Hence the remainder of this thesis is an evaluation of a proposal that could render further assistance in transposing the poverty sector of the economy beyond the dismal science. This proposal is a guaranteed minimum income via negative income taxation.

The principles of the negative income tax are directed at alleviating the enormity of the low-income problem. The attempt to guarantee economic security is not novel, but the concept of a negative income tax to support this security is. In 1946, George J. Stigler stated that:

"There is a great attractiveness in the proposal that we extend the personal income tax to the lowest income brackets with negative rates in these brackets."<sup>1</sup>

At the time of Stigler's writing, he was proposing a remedy to the low-income problem, just as many writers are proposing today.

---

<sup>1</sup>George J. Stigler, "Economics of Minimum Wage Legislation," American Economic Review, XXXVI (June 1946), 365.

More recently, notable economists and groups of persons have spoken favorably for negative income taxation, some for the same reason as Stigler, and others for widely differing reasons. For example, the ad hoc committee on technology, the U.S. National Commission on Technology, Automation, and Economic Programs, has alleged that a guaranteed minimum income is necessary to assist the unemployed, which are victims of technological change, those with mental and physical incapacities, and those too old to work.<sup>2</sup> Milton Friedman, a University of Chicago professor, has advocated the guaranteed income as a way to lower the cost of welfare statism.<sup>3</sup> He would substitute it in considerable part for the whole set of transfer payments and subsidies now in effect, thereby achieving a less costly and more unitary welfare system. Still another, Edward Schwartz, a sociologist, sees the guaranteed minimum income as a low-cost, no-strings way to end poverty instantly.<sup>4</sup> Whatever motives support their reasoning each has provided economic analysis on which the blueprint for a guaranteed minimum income may be based.

The most popular approach suggested for guaranteeing a minimum income is the Income-Deficiency Approach. This measure stresses

---

<sup>2</sup>U.S., National Commission on Technology, Automation, and Economic Progress, Technology and the American Economy (February 1966), pp. 33-42.

<sup>3</sup>Milton Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), Chapters XI and XII.

<sup>4</sup>Edward E. Schwartz, "A Way to End the Means Test," A Reprint from the Journal of the N.A.S.W., Social Work, Vol. 9, No. 3, (July 1964), pp. 1-11.



the need to assure some minimum income for all, regardless of the cause of the deficiency. Now, this approach can also be divided into two proposals, both realizing the identical end, but each meeting this end by different means: first, the Negative Income Tax Proposal, and second, the Social Dividend Proposal. The latter, long a concept in socialist literature, sets a minimum standard of living level and guarantees a minimum income to all below that level, regardless of means, and (as in the case of our public assistance programs) every dollar earned merely serves to reduce by one dollar the publicly provided income. On the other hand, the Negative Income Tax Proposal normally implies taking the sum of personal exemptions and the standard deduction as defining the minimum sum which society deems necessary to insure economic subsistence, and provide that above this level individuals pay taxes and below it they receive payments (negative taxes) equal to, or a partial amount, of, their income deficiency.

This thesis is concerned primarily with the Negative Income Tax Approach, although the Social Dividend Approach will be illustrated later in this chapter so that their basic differences can be compared.

#### The Negative Income Tax Proposal

What is the meaning of negative income taxation, and what is the objective of such a proposal? The meaning of a negative income tax is that a family or individual whose income is below a specified level is entitled to receive a payment, or an outright grant of cash from the federal government, the amount depending on the negative taxable income and the negative tax rate. The objective of the proposal is to close

part of the income-deficiency gap to those people with below-standard incomes.

Accomplishing this objective via negative taxation implies shifting the present tax system into reverse order by use of tax credits, or by the use of negative tax rates which are applied to unused exemptions and deductions, or by some other measure of the amount by which actual income falls below a certain level. This differs from the present tax system in only one respect. Under the present system either a person owes something or he owes nothing. Under the negative income tax plan a third possibility is that the government owes the individual something. The importance of the latter possibility is reflected in a statement by Joseph A. Kershaw, research director for the Office of Economic Opportunity which states;

"The last two tax cut bills went right over the heads of the poor, simply because most of them don't pay taxes.... But a negative tax plan would be a sure way to help the poor."<sup>5</sup>

#### The Friedman Plan

The negative income tax proposal can best be explained by making certain assumptions, and then illustrating how it would operate. Assume we use exemptions and the standard deduction (\$200 [\$100 if married and filing separate returns] plus \$100 for each exemption) as determining the minimum level of economic well-being, apply a negative tax rate of 50 per cent on incomes below this level, and incorporate the present tax laws for incomes above this level. Now, under the

---

<sup>5</sup>"Income Tax That Pays the Poor," Business Week, November 13, 1965, (Hereafter cited as "Income Tax," Bus.Wk.), p. 105.

assumptions a family of four has exemptions plus standard deductions equal to \$3,000. Hence, if such a family has total income of \$3,000, it pays no tax. This is the break-even income. Accordingly, there is a direct relationship between the family size, the break-even point, and the guaranteed minimum income; viz., as the family size increases, the break-even point and the guaranteed income increases, assuming a zero pre-tax income. This is illustrated in Table 1.

TABLE 1

THE GUARANTEED MINIMUM INCOME AND BREAK-EVEN  
INCOME FOR DIFFERENT SIZES OF TAX-PAYING UNITS

(With a 50 per cent tax rate on negative taxable income, and present respect to exemptions and standard deductions)

Family Size	Tax Rate	Break-Even Income	Guaranteed Minimum Income
1	50%	\$ 900	\$ 450
2	50	1,600	800
3	50	2,300	1,150
4	50	3,000	1,500
5	50	3,700	1,850
6	50	4,400	2,200

Adapted: Milton Friedman, "The Case for the Negative Income Tax; A View From the Right," p. 1.

If, as in our example, the family had a zero pre-tax income, it would have a break-even income of \$3,000 and a negative taxable income of \$3,000. Hence, it would be entitled to receive \$1,500, leaving the

family unit with a post-tax income of \$1,500.

In order to present an overall operation of this proposal let us now modify our assumptions, and assume such a family has earnings before taxes of \$2,000. Still applying exemptions and the standard deduction as defining the break-even income, it would have a negative taxable income of \$1,000, and it would be entitled to receive a payment from the government of \$500, leaving it with a post-tax income of \$2,500.

When the pre-tax income is beyond the break-even income the present tax laws intercept and the present tax rates are applied. Thus, if the family has a total pre-tax income of \$4,000 ( and uses the standard deduction), it has a \$1,000 positive taxable income. At the current tax rate for that bracket of 14 per cent the tax-paying unit has a tax liability of \$140, leaving it with \$3,860 in income after taxes. Table 2 clarifies the negative tax plan as presented above.

This is the minimum income guaranteed by this particular negative income tax plan, whereas the break-even income (that income where there is neither a negative payment or tax liability) is \$3,000.

In summary, we have outlined the concept of the negative income tax proposal. In this plan-a 50 per cent negative tax rate is applied in determining the amount of the negative tax payment, and the break-even income is based on existing exemptions and the standard deduction.<sup>6</sup>

---

<sup>6</sup>Milton Friedman, "The Case for the Negative Income Tax: A View From the Right," paper presented at the National Symposium on the Guaranteed Income by the Chamber of Commerce of the United States, Washington, D.C., December 9, 1966, p. 1.

TABLE 2

EXAMPLE OF INCOME TAX INCORPORATING 50 PER CENT  
RATE ON NEGATIVE TAXABLE INCOME

(Family of four; existing exemptions and standard  
deduction; existing rates on positive income)

Total Income Before Tax	Exemptions and Deductions	Taxable Income	Tax Rate	Tax	Income After Tax
\$ 0	\$3,000	-\$3,000	50%	-\$1,500	\$1,500
1,000	3,000	- 2,000	50	- 1,000	2,000
2,000	3,000	- 1,000	50	- 500	2,500
3,000	3,000	0	0	0	3,000
4,000	3,000	+ 1,000	14	+ 140	3,860

Source: Milton Friedman, "The Case for the Negative Income Tax: A View From the Right," p. 7.

#### The Lampman Plan

This proposal is by Robert J. Lampman, University of Wisconsin economist and former CEA member. The plan suggests a guaranteed income in which the break-even income is an established non-poverty income level as set by the Council of Economic Advisers and the Social Security Administration.<sup>7</sup> Then, to determine the negative tax payment, consideration is given to the size of the family, and a negative tax rate is applied to figure what part of any deficiency in earnings (below the non-poverty income level) should be made up by a subsidy.<sup>8</sup>

<sup>7</sup>Supra., Chapter III, n. 18.

<sup>8</sup>Robert J. Lampman, "Negative Rates Income Taxation," Unpublished paper prepared for the Office of Economic Opportunity, August 1965, pp. 12-18.

There are two specific differences in this plan and the previous one:

a) that the subsidy determinant is the income deficiency gap between earnings and the non-poverty level of income, instead of the base as unused exemptions and deductions; and b) that the negative tax rate varies as the amount of earned income changes, instead of a fixed negative tax rate.

Assume we are figuring the amount of the guaranteed minimum income for a family of four; that the non-poverty income level for such a family is \$3,000 (we use this figure instead to the CEA estimate to keep the figures in the table in round numbers); that the negative tax rate decreased as income increases; and that there is zero pre-tax income, with a 50 per cent negative tax rate for this income bracket. Hence, the amount below the non-poverty income level is \$3,000, and their negative tax payment is equal to \$1,500, for a post-tax income of \$1,500. For such a family with zero income the amount of their guaranteed minimum income is the same as in the first proposal presented.

Now, assume that such a family has a pre-tax income of \$1,500; i.e., \$1,500 below the non-poverty level of income. If the tax rate for this income bracket is 45 per cent, their subsidy would be equal to \$500 for an after-tax income of \$2,000. If the same tax-paying unit has a pre-tax income of \$2,500, and for this tax bracket the tax rate is 25 per cent, the family is entitled to a negative tax payment of \$125, and their after-tax income is \$2,625.

The above examples illustrate the second difference in this

plan and the former plan that was presented---a varying negative tax rate. This plan, as shown in Table 3, suggests that the negative tax rate increase as pre-tax income decreases, or that an inverse relationship exists between the tax rate and income. Since the subsidy declines as income rises the most deprived families will receive the greatest benefit from the proposal.

Another plan by Lampman, similar to the one above, has also been proposed with the only difference being in the variation of the negative tax rate. This plan calls for a tax rate of 75 per cent on earned income between \$0 - \$1,000, 50 per cent on earned income between \$1,000- \$2,000, and 25 per cent on earned income between \$2,000 - \$3,000. The tax base and subsidy determinant are the same as above.

#### The Tobin Plan

The last proposal examined to illustrate the principles of negative income taxation is by James Tobin, Yale University Professor and former member of the CEA. This plan expresses the same principles as the Friedman and Lampman plans, but with modifications with regard to basic allowances and the tax rate. The plan applies the basis of exemptions to determine the subsidy, if the tax-paying unit has zero income, then applying a negative tax rate to any earned income above the amount allowed for exemptions until the break-even income is reached.

Specifically, the plan starts by allowing each family head \$400 for each person in the household, if the family has no income, and until family size reaches a certain level. Then as his earned income rises, the government takes back part of the subsidy. Tobin's plan

TABLE 3

HOW A NEGATIVE INCOME TAX PLAN MIGHT WORK THROUGH  
A DECREASING SUBSIDY AS INCOME RISES

With an Earned Income of:	Amount Below the Non-Poverty Income level:	Negative Tax Rate Would be:	Subsidy Would Equal:	After-tax Income Would be:
\$ 0	\$3,000	50%	\$1,500	\$1,500
500	2,500	45	1,125	1,625
1,000	2,000	38	760	1,760
1,500	1,500	33	495	1,995
2,000	1,000	25	250	2,250
2,500	500	25	125	2,650
2,800	200	25	50	2,850
3,000	0	0	0	3,000

Source: Adapted from "Income Tax That Pays the Poor," Business Week, November 13, 1965, p. 105.

allows a family to keep two-thirds of any new income, applying the other third to reducing the original subsidy. For example, for a family of four the original allowance is \$1,600, and if it earns no income it gets the entire amount. If the family earns \$1,600 the allowance is zero, and above that income the family pays taxes, still at the rate of one-third on each additional dollar. Suppose a family member earns, say, \$900, the subsidy is reduced \$300 and their net income reaches some non-poverty level, whereon the tax liability



becomes the same as it is now; beyond that point the present schedule applies.<sup>9</sup>

The impact of the proposal is exemplified for a married couple with three children in Table 4. The first two columns show how the present tax schedule treats the family, assuming that the family qualifies only for the standard deduction. The last two columns show how the proposed integrated schedule of allowances and taxes would treat the same family. The middle columns superimpose on the present tax law hypothetical public assistance, designed to see that the family gets \$2,500.

However, Tobin notes that it may not be desirable to apply the basic formula of \$400 per capita across the board. Instead, a financial incentive to limit family size is incorporated to diminish and perhaps eliminate the extra amount allowed for an additional child when the size of the family is already large.<sup>10</sup>

In the design of an integrated allowance and tax schedule a compromise must be struck among three objectives: a) providing a high basic allowance for families with little or no earnings, b) building in a strong incentive to earn something, and c) limiting the budgetary cost of the scheme, and in particular minimizing the payment of benefits to those who did not need them.<sup>11</sup> For example, in

---

<sup>9</sup>"Income Tax," Bus.Wk., p. 106.

<sup>10</sup>Supra., Chapter III, p. 49.

<sup>11</sup>James Tobin, "The Case for an Income Guarantee," The Public Interest, No. 4 (summer 1966), p. 37.

TABLE 4

ILLUSTRATION OF IMPACT OF PROPOSED INCOME ALLOWANCES:  
MARRIED COUPLE WITH THREE CHILDREN

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Earned Income	<u>Present Tax Schedule</u>		<u>Present Tax Schedule With Public Assistance</u>		<u>Proposed Schedule</u>	
	Tax (-)	Income After Tax	Tax (-) or Assistance (+)	Income After Tax or Assist- ance	Allow- ance (+)	Income After Tax or Allowance
\$ 0	\$ 0	\$ 0	\$ +2,500	\$ 2,500	\$ +2,000	\$ 2,000
1,000	0	1,000	+1,500	2,500	+1,667	2,667
2,000	0	2,000	+ 500	2,500	+1,333	3,333
2,500	0	2,500	0	2,500	+1,167	3,667
3,000	0	3,000	0	3,000	+1,000	4,000
3,700	0	3,700	0	3,700	+ 767	4,467
4,000	- 42	3,958	- 42	3,958	+ 667	4,667
5,000	-185	4,815	-185	4,815	+ 333	5,333
6,000	-338	5,662	-338	5,662	0	6,000
7,000	-501	6,499	-501	6,499	- 333	6,667
7,963*	-654	7,309	-654	7,309	- 654	7,309
8,000	-658	7,342	-658	7,342	- 658	7,342

Source: James Tobin, "The Case for an Income Guarantee," The Public Interest, No. 4 (Summer 1966), p. 38.

\*Income at which present and proposed methods of calculating tax coincide.

Table 4 the initial allowance might be raised to \$3,000. But, if the 33 1/3 per cent tax rate were retained for incentive reasons, all the entries in columns (6) and (7) would be increased algebraically by \$1,000, and the table is lengthened to cover all the beneficiaries of the proposal.

The various negative income tax plans that have been introduced reveal the principle and mechanism of how the plan would operate. As recognized, this principle is based on several important propositions which are essential for the plan to be effective. These propositions are as follows: a) tax allowances shall be paid only to persons who are eligible as defined by the government, or co-ordinator for the government; or, b) marginal tax rates should be well below 100 per cent. These two propositions must be clearly settled before any attempt is made to institute a meaningful negative income tax plan; if not, we have encouraged the disincentive for work.

In summation, it is evident that the primary examples of negative tax plans presented here do not suggest all possible means of granting a guaranteed income. For example, the negative rates of taxation can be further manipulated in numerous ways; also, a guaranteed income level could be determined by devising any scale of so-called non-poverty level and trying to fill the gap entirely.

If we allowed a 100 per cent marginal tax rate; i.e., for every dollar of income earned up to the poverty level, it would be offset dollar for dollar by a reduction of the allowances. This would, by definition, close the poverty gap, but at an extremely high cost, if,

as seems likely, a good many of the presently working poor and even some of the non-poor elected to work less than they now do and rest on the income guarantee.<sup>12</sup>

Alternatively, the \$3,000 income guarantee could be made without the 100 per cent tax rate by extending the net allowance to persons who are not poor. Suppose a 50 per cent rate was applied, then, we would have to extend the range within which net allowances are positive up to \$6,000 of original income. This would require payments of benefits to some non-poor persons and tax rates on the rich which, when added to those they are already paying, would be severe disincentives to work, save, and invest.<sup>13</sup>

In retrospect, each of the plans presented requires a recipient to lose part of his subsidy as his income rises. This is illustrated in Figure 4. Even so, the recipient still has an incentive to earn more income if the opportunity is available, since he can keep a part of additional income. This is one of the primary advantages over present public assistance programs, since under the relief whatever additional income is earned is subtracted in full from the aid being given.

#### Cost of a Guaranteed Income

In order to properly appraise the negative income tax proposal, one must attempt to determine the cost affecting its applicability.

---

<sup>12</sup>Lampman, op. cit., p 13.

<sup>13</sup>Ibid.

Although the cost of implementing such a proposal may appear to be a definitive task the several plans presented in the previous subsection will cost strikingly different amounts.

Nevertheless, whichever plan is adopted, one of the prime determinants of the costs of the proposal is in the nature of the present income distribution. As of March 1966, 7,998,000 families (17 per cent of the total family units) had less than \$3,000 of income, and 4,731,480 unrelated individuals (39 per cent of total unrelated individuals) had less than \$1,500 of income.<sup>14</sup> The combined income of this group would have to be \$31 billion in order to reach the so-called non-poverty level.<sup>15</sup>

Knowing the amount needed to bring this group above substandard income levels, we can now see what has been done in this direction and determine the income-deficiency gap. In fiscal year 1965, an estimated \$20 billion of the total spent on public assistance transfer payment programs went to persons who were, or would otherwise have been, included in the income-deficiency gap. Although this amount is enormous it still left about 12 million units receiving insufficient income to meet the minimal living levels now applied to define poverty. People who remained below the minimal level received about \$10 billion of all public transfer payments. To eliminate completely the income-deficiency gap--the amount by which total money

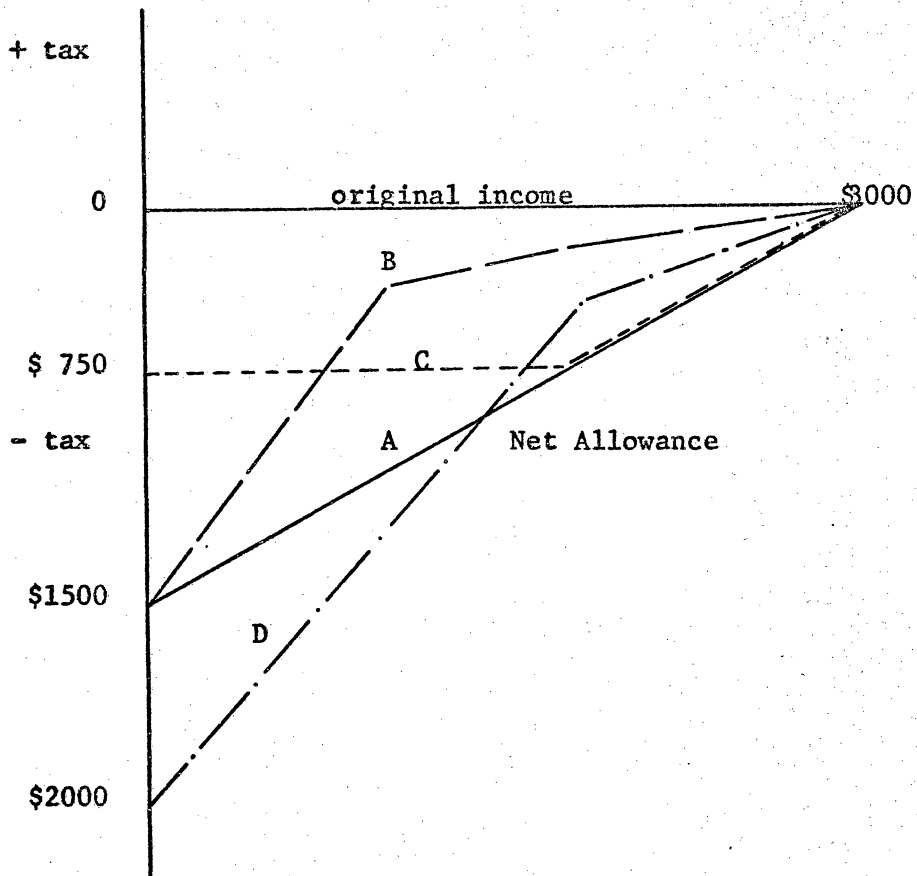
---

<sup>14</sup>U.S., Bureau of the Census, Current Population Reports, P-60, No. 51, (January 12, 1967, pp.1-2.

<sup>15</sup>This is figured as follows: 8 million families times \$3,000 equals \$24 billion, and 4.7 million individuals times \$1,500 equals \$ 7 billion.

Figure 4

## Four Rates Schedules for Negative Rates Taxation



- A: Flat 50 per cent rate
- B: 75 per cent, 50 per cent, and 25 per cent on successive \$1,000 brackets
- C: Zero rate on first \$1,500 of original income, 50 per cent on next \$1,500
- D: 75 per cent on first \$1,500, 33 per cent on next \$1,500

Adopted: Robert J. Lampman, "Negative Rates Income Taxation," p.16.

income falls short of meeting the minimum standard--would require that about \$12 billion be added to the income of the poor.<sup>16</sup>

The amount cited above is only one of many estimates made on the cost of a guaranteed income. This estimate is generally based on the 1963 report that there were 35 million people classified as poor with a total income of \$20 billion. The sources of income were \$12 billion from earnings, \$4 billion from Social Insurance, and \$4 billion from public assistance. Thus, \$31 billion minus \$20 billion equal \$11 billion.

The Lampman plan, as shown in Table 3, has been estimated to cost approximately \$8 billion, but would reduce public assistance expenditures by about \$5 billion.<sup>17</sup> This estimate is assumed valid under two important concomitant circumstances; that there is no change in the aggregate earnings of the recipient groups, and that the estimate omits the fact that the poverty-income group is expected to decrease over time.

The Tobin plan, as shown in Table 4, is estimated to cost about \$15 billion, slightly higher than the cost offered by the CEA.<sup>18</sup> Partially offsetting this cost are savings in government public assistance programs, which cost about \$6 billion a year. Tobin suggests also that the money could be forthcoming from the annual surplus

---

<sup>16</sup>U.S., Council of Economic Advisers, Economic Report of the President, 1966, p. 114.

<sup>17</sup>Robert J. Lampman, "Negative Rates Income Taxation," p. 12.

<sup>18</sup>James Tobin, "Improving the Economic Status of the Negro," Daedalus, (Fall 1965), pp. 891-93.

generated in federal tax revenues by normal economic growth. Also, additional sources of funds could be forthcoming from possible savings in a host of other income maintenance programs, especially those in agriculture supports.

Friedman has not, to my knowledge, estimated the initial cost of a negative income tax proposal, although he has suggested that the cost would be substantially lower than current expenditures for direct welfare payments and related programs. This is summarized in the following remark:

"...the 1961 expenditures of \$33 billion[for welfare and related programs] would have financed outright cash grants of nearly \$6,000 per consumer unit to the 10 per cent with the lowest incomes...A program which supplanted the incomes of the 20 per cent of the consumer units with the lowest incomes so as to rise them to the lowest income of the rest would cost less than half of what we are now spending."<sup>19</sup>

Several cost estimates have been presented which are representative of the financial impact of a negative income tax plan to support an annual guaranteed minimum income. Also, the Appendix outlines the cost of a guaranteed income applying the Social Dividend Approach. Yet a definite right answer for the cost of such a proposal has not been stated. We might say the right answer, like the answer to many questions in economics is, "it depends." Specifically, it depends upon (1) the proportion of those eligible for the plan taking advantage of the benefits, (2) the definition of income employed in the legislation enacting a system with the payment scales

---

<sup>19</sup>Milton Friedman, Capitalism and Freedom, pp. 193-4.



and tax rates already proposed, (3) the rate of negative taxation, (4) and whether present transfer payment programs will still be applied or withdrawn. Still, whichever, plan is adopted the cost will be in the billions of dollars.

#### How the Proposal Would Be Administered

One of the most advantageous aspects of a negative tax plan over current transfer payment programs is in its ease of administration. Under such a proposal the Treasury via the Internal Revenue Service would direct the payment of all refunds or allowances by integrating the proposal with the existing federal income tax system.<sup>20</sup> In this way, the administrative burden of policing the system by social workers would be eliminated or reduced, since the plan would operate through an already existing federal agency. The diminution of administration is very significant since a large share of existing cost of various welfare agencies is the costs of salaries, rents, and costs to handle paperwork.

Although integrating the negative tax plan into the present tax system, is an advantage, it could also be a disadvantage. For example, how can the recipient entitled to a refund receive it during the approximate time period of income loss, instead of having to wait until April 15th of each year? One suggestion is that the tax-receiving unit could make a monthly or quarterly declaration of expected income, thus avoiding a lump sum and belated refund. After the end of the calendar year, negative income tax recipients would file yearly

---

<sup>20</sup>U.S., Council of Economic Advisers, op. cit., p. 115.

tax returns just as would the rest of the population. Just like any other tax-paying unit the IRS date of April 15th would be their day of reckoning if they should have over-estimated their negative income tax.

The yearly tax return would be similar to present forms with only minor changes. The recipient would fill out a tax form showing income and family size, look up a table showing the allowance payable for that income and family size combination, and mark down what his refund on negative income should be. He would then receive a check from the Treasury as under existing procedures.

#### Who Would Receive the Benefits

At first glance the question above appears naive since the stated objective of the negative tax proposal is to benefit the poor, or economically disadvantaged. But the answer is not so easily ascertainable when second thoughts are applied to determining the beneficiaries of negative taxation. Sure enough, the group classified as poor still reappears as the recipient--but, just which "poor" income group or family size will receive the greatest benefits from enactment of such a plan depends on the level and pattern of negative rates, the way the tax base is defined, and the determination of eligibility for the tax unit.<sup>21</sup>

One such group that should be beneficiaries of a negative tax plan is the "class with zero income," which, according to the Ad Hoc

---

<sup>21</sup>Robert J. Lampman, "Negative Rates Income Taxation," p. 28.

Committee on the Triple Revolution, is a permanent impoverished and jobless class developing with the speed of cybernation and established in the midst of potential abundance.<sup>22</sup> The Lampman plan presented in Table 3, or his alternative plan, would be most beneficial to this class. This is because the zero income bracket has a higher marginal tax rate than other brackets before the poverty-level. Also, the Tobin plan in Table 4 is directed at alleviating the financial stress of those in the lower income groups with the higher break-even income level.

A second group that would benefit from the plan is those members of the work force who contributed to the output of our nation but without receiving ample wages. This group is held back due to lack of education, racial discrimination, and social prejudices. The advisory Council on Public Welfare proposes the guaranteed income for these groups as part of our nation's social responsibility.<sup>23</sup>

Either of the plans presented would serve to benefit this group, although the Tobin plan is more applicable due to the higher break-even income level and lower marginal tax rate and allowance.

A third income class presented as poor is that group with low income and large family size. The latest Current Population Reports

---

<sup>22</sup>U.S., National Commission on Technology, Automation, and Economic Progress, Hearings on H.R. 10310 and Related Bills, 88th Congress, 2d. Sess., 1964, p. 129

<sup>23</sup>U.S. Department of Health, Education, and Welfare -- Welfare Administration, Report to the Secretary of Health, Education and Welfare, 1966, p. 21.

(No. 51) shows that 21 per cent of the family units in the zero to \$3,000 income brackets have six or more children in the family.<sup>24</sup>

Also as stated in Chapter III, there are 15 million children under the age of eighteen living in "poor" households.

Either the Friedman or Lampman plan would specifically aid this income group since each of the proposals bases the plan on existing exemptions and the standard deduction, or on family size related to a non-poverty level.

The negative income tax proposal will benefit all poor income groups, but which group or class will benefit the most depends on the plan selected.

---

<sup>24</sup>U.S. Bureau of the Census, op. cit., p. 21.

## CHAPTER V

### ECONOMIC BENEFITS OF NEGATIVE TAXATION

#### Free State and Local Resources

While certain of the wealthier states possess their poverty pockets in ghettos and slums, the greatest concentration of poverty is in the South, the border States, and the Great Plains States. The welfare expenditures designated to aid the poverty-stricken in these regions are burdensome on the various governmental units, and the negative income tax could partially relieve the burden. By freeing state and local resources now devoted to these programs the states could strengthen other vital programs such as education, crime control, etc.

In Table 5, a comparison of the percentage of welfare expenditures to total expenditures by individual states will illustrate the high cost involved in maintaining public welfare programs. When these percentages are compared to the most poverty-stricken states (when ranked by the percentage of their population with family incomes of under \$2,000 per year) we find that those states with the highest percentage of welfare expenditures also tend to be the poorest. The most poverty-stricken states are Mississippi (38%), expenditures (14%); Arkansas (32%), expenditures (18%); Alabama (27%), expenditures (16%); Kentucky (26%), expenditures (14%); Georgia (23%), expenditures (14%);

TABLE 5  
EXPENDITURES FOR PUBLIC ASSISTANCE BY STATES, 1965

State	Total Expenditures (thousands of dollars)	Public Welfare (thousands of dollars)	Per Cent of Total
Alabama	\$ 781,328	\$ 121,404	15.5
Alaska	202,222	6,638	3.8
Arizona	439,967	34,013	7.7
Arkansas	368,229	65,596	17.8
California	6,122,871	853,766	13.9
Colorado	523,849	88,653	16.9
Connecticut	655,374	86,411	13.8
Delaware	190,955	12,601	6.6
Florida	1,145,196	110,191	9.6
Georgia	819,084	113,212	13.8
Hawaii	273,306	14,883	5.4
Idaho	182,239	15,688	8.6
Illinois	2,066,010	347,353	16.8
Indiana	1,006,440	46,252	4.6
Iowa	637,774	69,554	10.9
Kansas	453,123	53,771	11.9
Kentucky	690,359	97,294	14.1
Louisiana	1,079,671	202,932	18.8
Maine	227,398	27,633	12.2
Maryland	787,535	61,463	7.8
Massachusetts	1,273,120	196,971	15.5
Michigan	2,053,768	186,291	9.1
Minnesota	890,697	85,159	9.6
Mississippi	469,079	65,568	13.9
Missouri	819,843	145,223	17.7
Montana	221,567	12,230	5.5
Nebraska	237,538	28,085	11.8
Nevada	166,981	7,447	4.5
New Hampshire	154,837	11,346	7.7
New Jersey	1,060,882	99,590	9.4
New Mexico	353,778	33,495	9.5
New York	4,600,888	544,170	12.0
North Carolina	939,605	88,505	9.4
North Dakota	199,265	17,926	9.0
Ohio	2,016,961	223,949	11.1
Oklahoma	679,712	161,112	23.7
Oregon	623,788	53,524	8.6
Pennsylvania	2,599,301	275,138	10.6
Rhode Island	237,005	36,002	15.1
South Carolina	457,275	37,232	8.1
South Dakota	172,047	15,763	9.2
Tennessee	702,747	72,475	10.3
Texas	1,793,112	239,721	13.4
Utah	338,704	27,172	8.0
Vermont	135,006	11,342	8.4
Virginia	929,684	38,875	4.2
Washington	1,100,590	130,302	11.8
West Virginia	465,743	63,520	13.6
Wisconsin	1,048,727	81,465	7.7
Wyoming	152,100	5,336	3.5
Total	45,507,280	5,434,247	

Source: U.S., Department of Commerce, Compendium of State Government Finances in 1965, pp.28-31.

Louisiana (23%), expenditures (19%); West Virginia (22%), expenditures (14%); Oklahoma (20%), expenditures (24%); Texas (18%), expenditures (13%); Missouri (17%), expenditures (18%); Iowa (15%), expenditures (11%); Nebraska (15%), expenditures (12%); and New Mexico (15%), expenditures (9%). These statistics indicate that poverty is a problem and hindrance to economic progress.

The item, Public Welfare, designates support of and assistance to needy persons contingent upon their need, including intergovernmental expenditures to help finance programs administered by local governments. These include Old Age Assistance, Aid to Families with Dependent Children, Aid to the Blind, Aid to the Disabled, and services and commodities provided under welfare programs for the needy. Those programs based on status, occupation, etc., are not included under public welfare expenditures. By shifting these programs under the auspices of the federal government via negative taxation state and local governments can more effectively undertake local problems.

#### Reallocation of Resources

##### Increase the Consumption Function

Although there is wide disagreement on the level of the marginal propensity to consume among different income groups, it seems quite definite that a permanent redistribution in favor of the lower income groups would raise the consumption function.<sup>1</sup> A rise in consumption

---

<sup>1</sup>Norman F. Keiser, Macroeconomics, Fiscal Policy, and Economic Growth (New York: John Wiley & Sons, Inc., 1964), p. 173.

will result in an increase in "effective demand" which is one determinant of a greater personal income and prosperity. Admittedly, the initial recipients of negative taxation will be the poverty-stricken, but other income groups will also benefit from long-run economic progress. Increased consumption will also stimulate investment since greater demand means higher profits which is an important determinant of the level of investment.

If it is assumed that transfer-by-taxation will increase personal income, it follows that as income increases the tax take will also increase. This does not mean only total collection: the rate of the tax increases also because of the progressive income tax. Induced taxes then resulting from an increase in the level of income would aid in financing the negative income tax program.<sup>2</sup> It is necessary to keep in mind that all ramifications are not considered; thus the above discussion on increased consumption is much too elementary.

It might also be argued that higher income groups will carry the burden of negative taxation, and that our economy will feel the impact due to decreased savings in the higher income groups, thus lower investments. While the former argument is tenable, statistics to support the latter notion are inadequate. However, one study indicates that caution should be exercised in placing too much faith in the theory that income redistribution will greatly decrease the

---

<sup>2</sup>Supra., Chapter IV, p. 68.



volume of savings in the economy.<sup>3</sup>

### Reduce the Disparity of Incomes Between States

The most poverty-stricken states were outlined above, and it is a known fact that a great disparity of income exists. The reasons for the enormity of the low-income problem in the poorer states are usually obvious--less industrialization, greater illiteracy among the populace, fewer natural resources, etc. As such, we are not trying to deduce causes of the problem, but only to recognize the existence of economic insufficiencies.

A negative income tax would reduce the disparity of income, especially among the most poverty-stricken states. This is specially beneficial to the "poor" states since they normally have a lower cost of living, thus granting the recipient of negative taxes greater purchasing power.

### Tax Equity and Negative Taxation

It is the general belief in this country that the individual income tax is the most equitable of all taxes.<sup>4</sup> This reasoning follows from the conviction that it accords best with ability to pay, and ability to pay is the capacity of paying without undue hardship on the part of the person paying. Also, the income tax has gained approval because of its directness in the sense that those who pay it will be unable to shift it to others.

---

<sup>3</sup>M.G. Mueller (ed.), Readings in Macroeconomics (New York: Holt, Rinehart and Winston, Inc., 1965), p. 59.

<sup>4</sup>Richard Goode, The Individual Income Tax (Washington: The Brookings Institution, 1964), p. 11.

However, there are inequities in the tax system, particularly among the poor. Almost all of the poverty-stricken are now non-taxable under the Federal individual income tax, but they do pay a considerable part of their incomes under other Federal, state and local taxes. Many possible changes in the income tax law, such as reducing the positive tax rates, will not affect their incomes since they are already non-taxable. A zero tax liability cannot be made less than zero, which means that we tolerate a considerable amount of inequity within the non-taxable income range. For example, a family of four will pay no taxes whether its income is one dollar or \$3,000. It also means a family of four with a \$3,000 income pays the same tax--namely, zero--as does a family of eight persons with a \$3,000 income.<sup>5</sup>

The negative income tax would help eliminate these tax inequities and at the same time improve the incomes of the poor. If we apply unused exemptions and deductions as the basis for negative tax payments it would appear to be consistent with the logic of the income tax. It is also evident that the negative tax plan would offset the burden of regressive taxes on the poor, which would further tend to increase their incomes.

#### A Fiscal Stabilizer for the Economy

Fiscal stabilizers may be defined as devices which, in response to a change in the GNP, operate in a counter-cyclical manner without

---

<sup>5</sup>Robert J. Lampman, "Negative Rates Income Taxation," p. 2.

the need for policy decision or discretionary action. The more important ones are the individual income tax, unemployment insurance, and the corporate income tax. Also included are excise taxes and the OASI programs.

The importance of stabilizers stems primarily from their role in insulating private incomes from a decline in demand, thereby interfering with the cumulative magnification of a decline once started.<sup>6</sup> This interference takes place with respect to both consumption and investment in the private sector, although our interest is with respect to consumption. In Chapter III it was noted that many of the low-income families were those with a part-time worker as head of the household. Most of these jobs are filled by the unskilled worker and disappear in a contracting economy. As such, the negative income tax would supplement their earnings during a recession, and, hopefully, they would not be eligible during recovery. Since the plan is linked to the individual income tax it would operate automatically to a change in the economy, thereby cushioning personal income during a decline.

---

<sup>6</sup>Wilfred Lewis, Federal Fiscal Policy in the Postwar Recessions (Washington: The Brookings Institution, 1962), p. 65.

## CHAPTER VI

### POLITICS AND WELFARE

It is explicitly illustrated that the negative income tax plan is a practical economic concept: a) its ease of administering under the auspices of the Treasury Department dictates a unitary welfare system; b) it can provide a less costly public assistance program; and, c) it is equitable with regard to the present income tax system. But, is the plan feasible so far as political principle is concerned? Since the proposal is to be regulated by the federal government is it only another hand-out program of the Welfare State?

#### Expansion of Governmental Powers

Despite the individualistic tradition and laissez-faire philosophy that distinguishes the political and economic thinking of American from most national groups, they have not hesitated to approve the expansion of governmental powers. Franklin D. Roosevelt introduced the New Deal, Harry S. Truman the Fair Deal, and Lyndon B. Johnson the Great Society--each slogan depicting positive programs of economic and social reform under federal regulation. These reforms, as seen above,<sup>1</sup> extend the powers of government in the areas of social security, health insurance, education, employment, etc., which led to our capitalistic

---

<sup>1</sup>Supra., Chapter II.

system being called a Welfare State. We might ask, what is a Welfare State and how does it intersect the areas of economic and politics?

The Welfare State is subject to various definitions depending generally upon political leaning---right or left, opponent or proponent. But, generally, the term means federal sponsorship and regulation of Factory Acts, social insurance, subsidies for education, socialized medicine, farm price supports, measures designed to stabilize the economy, minimum-wage legislation, etc. The list covers a wide and varied range of activities, and could be expanded considerably.

The opponents of the Welfare State use the term synonymously with statism, collectivism, and state socialism. Common to all these terms is the idea of a centralized government undertaking more functions on which the individual must come to depend to support his well-being. This is in contrast to a government which assumes a minimum of functions and depends on the individual to provide for his well-being.<sup>2</sup>

The danger of statism has been expressed by many, and not only by those with so-called conservative views. Bertrand R. Russell, who is certainly no opponent of the Welfare State, has stated:

"Every use of the power of States needs... to be

---

<sup>2</sup>Asher Achinstein, The Welfare State, The Library of Congress Legislative Reference Service Public Affairs Bulletin No. 83 (Washington: U.S. Government Printing Office, 1950), p. 3.

closely scrutinized, and every possibility of diminishing its power is to be welcomed provided it does not lead to reign of private tyranny."<sup>3</sup>

Another, Ludwig Von Mises, a champion of free enterprise and non-interference of government has stated; "... we must realize that delegation of power is the main instrument of modern dictatorships."<sup>4</sup>

Each opponent of increased governmental powers sees the individual as the underlying force for building a better nation, and not a beneficent State. In other words, a good community does not spring forth from the glory of the State, but from the unfettered development of the individual.<sup>5</sup>

On the other hand, the proponents of the Welfare State maintain that the government must provide security for the individual against risk over which he has no control. Only in doing this can a democracy avoid the emergence of a totalitarian state.

The advocates of greater federal regulation cite the Constitution to support their arguments in that it was established to "promote the general welfare of the people." Therefore, extended government regulation is needed to insure that power is not monopolized by any one group, thereby stifling the opportunities of others. Says John K. Galbraith;

---

<sup>3</sup>Bertrand R. Russell, Proposed Roads to Freedom (New York: Henry Holt and Company, 1919), p. 113.

<sup>4</sup>Ludwig Von Mises, Bureaucracy (New Haven: Yale University Press, 1946), p. 5.

<sup>5</sup>Russell, op. cit., p. 138.

"Our liberties are now menaced by the conformity exacted by the large corporation and its impulse to create, for its own purposes..."<sup>6</sup>

Accordingly, the most often heard remark for establishing the Welfare State, or governmental expansion, is that science and technology and industrialization have prompted the new powers of the State. This note sounds similar to the argument presented in Chapter III of this thesis. If the above is true, then why should not everyone endorse governmental extension? Did we not say that the movement was strictly for economic and social reform which provides security for all citizens?

#### Individual Freedom Versus Security

The confusion and differences arise from the fact that supporters and objectors to governmental expansion may agree with the general objectives of the Welfare State, but differ in regard to how it should be accomplished. Specifically, its advocates regard the enactment of federal legislation to increase individual security necessary for the exercise of freedom. The opponents look upon the multiplication of centralized power as producing a decline in liberty and freedom. In order to clarify these conflicting views we must first establish a basis of understanding our political system and the functions of the government in the system.

#### Democracy and the Democratic State

##### What is Democracy?

---

<sup>6</sup>John Kenneth Galbraith, The Affluent Society (New York: Mentor Book, 1958), p. 211.

The word democracy is subject to various definitions and it is difficult to define in condensed form, but it can be defined when seen by the inherent elements. The early Greeks interpreted it simply as rule by the majority with respect to the political system, although it embodies both a theory of society and of government.

The more pronounced elements of a democracy are (a) government is by majority and government by unanimous consent; (b) the individual has a worth and a dignity of his own that society must recognize and respect; (c) all men should enjoy an equal opportunity to make use of their talents, to take advantage of the opportunities that life offers, and to enjoy equal justice under the law; and, (d) there exists the free exchange of ideas.<sup>7</sup> These elements reflect the basis of a democracy in the political system and in the society. But how are these protected and warranted under a democratic form of rule?

#### Functions of the State

The above question can best be answered by referring to the purposes set forth in the preamble of the American Constitution: "insuring domestic tranquility," "providing for the common defense," "securing the blessings of liberty," "establishing justice," and "promoting the general welfare."<sup>8</sup> Although these specific functions are set forth as the guiding principles for our nation they are

---

<sup>7</sup>Robert K. Carr *et al.*, American Democracy in Theory and Practice (New York: Holt, Rinehart and Winston, 1960), pp. 26-30.

<sup>8</sup>Ibid., p. 10.



applicable to some degree to almost any State, whether democratic or in other form of government.

Insuring Domestic Tranquility--Probably the oldest aim of all governments is to maintain order within the domestic society itself. To accomplish this end the government enacts laws to regulate human conduct whereby conflicts between individuals or groups may be settled without resorting to violence.

Providing for the Common Defense--Parallel to the government's rôle in maintaining domestic peace, it is a natural extension that it should guard against foreign aggression. We need only to look at the federal expenditures designated for defense purposes in the administrative budget to realize that this is probably the most important function of the government.

Securing the Blessings of Liberty--A third end of government is to safeguard the freedom of the individual. This is set forth most explicitly in the Declaration of Independence: "to secure the rights of life, liberty, and the pursuit of happiness for the people." This statement of purpose insures the individual freedom of speech, religion, and action in our society, and the enjoyment of the benefits of civilization which are dependent on government activity.

Establishing Justice--Establishing a way to regulate the affairs of men and to resolve human conflicts with fairness and by a degree of predictability is another important function of government. It can be stated that justice involves two factors, social justice and legal justice. Legal justice is promoted by the government and administered

by the courts under law. Like social justice it is framed by social values, but its reference is law.

Social justice, on the other hand, is concerned with the sharing of the gains of civilization, again in a manner of fairness to all concerned. This is reflected in our capitalistic society by the process of the distribution of goods, or the rewards of our labor. In general, we believe that men shall be rewarded for their labors in the light of quality and quantity of their productivity. A socialist society takes as its value judgement the rule that each man shall contribute to the production of social wealth according to his ability and receive according to his need. In either case government has a part in promoting social justice. If the wording of the Constitution does not prescribe these duties emphatically enough, it is evident from the propagation of reforms sweeping this nation, Great Britain, and the Scandinavian countries that they consider it a prime function. Presently, old-age assistance, unemployment insurance, regulation of wages and hours of labor, and the various subsidies are evidence of increased concern with social justice.

Promoting the General Welfare--Finally, promoting the general welfare of society is a function of the democratic government. Much of the controversy over the "welfare state" is in regard to objectives of the government to promote the material well-being of society through federal subsidies, manipulation of the supply of money, discretionary action through fiscal policies, etc. Some see such actions as a widening of individual opportunity, and others see it

as a weakening of individual responsibility.<sup>9</sup> But the fact that the government can promote the general welfare by rendering specific and positive services to people is an inescapable one.

#### Summary

In summary, we might question whether the proposal for negative rates income taxation is in accordance with the functions of the state, and does it relate to the general philosophy under democratic rule? Evidently, from the prescribed functions above, it is in agreement with the responsible purposes as set forth by the framers of the Constitution, and correspondent to the ideas of society which the government represents.

#### Economics and Politics

How does the concept of negative taxation coincide with political and economic philosophies, and the Welfare State? Primarily, since the proposal will be administered by the government it is argued that it is only increasing control over individual rights by an existing, over-extended, centralized power. Second, to many the proposal is in conflict with the capitalistic philosophy that those members of society who do not contribute to economic productivity should not be paid to remain idle. These two arguments are the most often voiced with regard to the tax plan. But are the views tenable?

It can be argued that the proposal will not create any greater controls than that of the present social security system. It is impersonal in regard to who receives the benefits and how the

---

<sup>9</sup>Achinstein, op. cit., p. 27.

recipient spends his income. Factually, the negative tax plan would permit greater freedom in regard to our public assistance programs. Under these programs the recipient is often under undue pressure as to how he should spend his relief money, and often suffers undue harassment from social workers who are counselors to the poor class.<sup>10</sup> This policing of funds by local counselors is in many cases an invasion of private rights, and surely contradictory to the rights of the American citizen.

The second point has to do with incentive work. It is argued that to grant people a guaranteed income will induce them to remain idle and accept the "dole" as their only means of income. There is much truth to this objective, although the plan is quite different from present welfare programs. The marginal tax rate of less than 100 per cent is significant in that it is an inducement to work and to create additional financial gains without it all being taxed or taken away as it is now. Under the negative tax plan an individual can keep part of his earnings without losing his subsidy dollar for dollar.

In summation, the proposal does not interfere with basic economic and political beliefs as do the various relief plans now regulated by the federal government. The recipient has greater control over his consumption expenditures to suit his own desires; the recipient has an added incentive to produce and accumulate monetary gains; and federal control is reduced to minor action.

---

<sup>10</sup>Richard Elman, *The Poorhouse State: The American Way of Life on Public Assistance* (New York: Pantheon Books, 1966).

## CHAPTER VII

### CONCLUSION

An attempt has been made to explore the mechanics of a negative income tax plan, and to reveal the various subjects related to the proposal. It has been explained that the plan is an effective attack on the poverty problem and that its implementation will yield beneficial social and economic results. But, little has been said with reference to specific areas of criticism of the plan. The conclusion will examine these criticisms and their validity in light of the points already explained.

#### The Question of Income

One of the primary criticisms directed against the negative income tax proposal is that some ineligible persons will receive payments due to the unreliable measures of income as the qualifying criteria. That is, the present income tax law does not provide a ready-made device that is suitable for accomplishing welfare goals, since "income" for tax purposes is not the same as "income" in an economic sense. What is even more basic is the thought that whatever could be accomplished by modifying the definition of income to make it conform more closely to present-day welfare criteria could also be accomplished by modifying our welfare laws and institutions to make them conform more

closely to those features of our tax system.<sup>1</sup>

The problems are not likely to be serious in magnitude, though there will be those that escape the technicalities of what is a deduction and what constitutes income. For example, some well-to-do people whose income for tax purposes would fall below the poverty line could qualify for the plan because of an extraordinary casualty loss, or medical expense, or because they received only tax-exempt interest, or payments on a personal injury judgment.<sup>2</sup> But, of a more serious consequence are the problems raised by cash receipts such as social security payments, children's wages under \$600, scholarships, exemptions for blindness, or for being over sixty-five. These are only some of the more prominent ones and they will be dealt with separately.

Social Security—Payments received from the Social Security program, now exempt as income under the income tax law,<sup>3</sup> would be considered income for purposes of the negative income tax.<sup>4</sup> However, since a part of this can be regarded as a return of employee invested capital rather than income, part of the receipts could be excluded for determining income under the plan.

---

<sup>1</sup>William A. Klein, "Some Basic Problems of Negative Income Taxation," Wisconsin Law Review, Vol. 1966:776, No.3 (Summer 1966), p.784-6.

<sup>2</sup>Ibid.

<sup>3</sup>I.T. 3447, 1941-1 CUM. BULL. 191.

<sup>4</sup>Lampman would include such payments in income, whereas Tobin would make OASDI beneficiaries ineligible for payments under the plan.

Children's Wages Under \$600—Earnings by a child under \$600 per year would continue to be excluded from income under the plan as it is now. However, this would apply only to children.

Scholarships—Scholarships and fellowships would be considered income under the negative income tax plan. Presently, they are exempted under the tax law.<sup>5</sup>

Exemption for Blindness—Under the present income tax law an additional exemption exists for blind persons.<sup>6</sup> The rationale for such an exemption is just as valid under the negative income tax plan as under present law. A totally disabled person cannot be expected to work, providing this is the case.

Persons Over 65—Present law provides for an additional exemption for persons over 65,<sup>7</sup> and the same should prevail under the negative tax plan. It was illustrated in Chapter III that many of the low-income individuals are those too old for production labor. The argument over incentives is useless in such a case.

Admittedly, these are only a few of the problems in classifying the definition of income under a negative income tax plan, although much of the logic or rationale applied to present laws could carry over to the new proposal.

#### The Time Lag and Tax Payments

---

<sup>5</sup>Excluded under INT. REV. CODE OF 1954, Sec. 117.

<sup>6</sup>INT. REV. CODE OF 1954, Sec. 151.

<sup>7</sup>INT. REV. CODE OF 1954, Sec. 151.

Another major criticism of the negative income tax plan is that for the poverty-stricken to be helped, they need the money now, not a rebate sometime after April 15, when they have filed their income tax. This point was considered in Chapter IV and it was stated that negative tax payments would be made monthly by IRS just as taxes are withheld from wage earners. Then at the end of the calendar year, negative income tax recipients would file yearly tax returns just as everyone else. The recipients like other taxpayers would receive either a rebate or be required to pay to IRS the amount by which their total monthly payments based on estimates of anticipated annual income exceeded their annual entitlement.

#### Relativity of Poverty

Some have opposed the plan because of the difficulty in defining poverty, which is a relative term. Thus, the farmer may be living well with a certain income where the family in Harlem would have great difficulty living on this same amount. This problem cannot be solved entirely, but the plan would certainly not worsen their financial positions.

#### Alternative Approaches

It might be suggested that there are better approaches to reducing poverty than just giving someone money. For example, it is known that poverty breeds poverty due to individual lack of motivation, the depressing environment, lack of education, etc. There is no argument on this point and this thesis has not declared that the negative income tax proposal is a cure-all to the low-income problem. But,



financial security and these other individual self-help programs can alleviate the problem. It can also be stated that the present welfare system is "loaded" with supplementary programs, and more programs, to help the poor, but the poor still exist at a high cost to tax payers.

#### Summary

To the author's knowledge there is only one jurisdiction that has so far adopted anything approaching the negative income tax plan. This is the State of Hawaii,<sup>8</sup> which in 1965 instituted a program of tax credits under which, a family of four with an income of less than \$1,100 will receive a tax payment of \$72.<sup>9</sup> The plan has not been in effect long enough to warrant adequate judgment, although one report indicates that the plan has not been effective due to the problem of defining "income."<sup>10</sup> It cannot be determined whether this fault resulted from inexperience or simply short-sightedness, but a more definitive approach was needed. From all probability, the enactment of such a plan by the federal government would witness similar faults at inception. But from the information presented, there is positive analysis which reflects the effectiveness of negative rates income taxation in guaranteeing a minimum annual income.

---

<sup>8</sup>Act 155, Session Laws of Hawaii, 1965

<sup>9</sup>Thomas K. Hitch, "Why the Negative Income Tax Won't Work," A reprint from the July/August, 1966, issue of Challenge.

<sup>10</sup>Ibid.

## A SELECTED BIBLIOGRAPHY

## BOOKS

- Becker, J.M. In Aid of the Unemployed. Baltimore: The Johns Hopkins Press, 1965.
- Bellamy, Edward. Looking Backward. New York: Houghton Mifflin Company, [1931 ?].
- Carr, Robert K. et. al. American Democracy in Theory and Practice. New York: Holt, Rinehart and Winston, 1960.
- Cole, G. D. H. Robert Owen. Boston: Little Brown and Company, 1925.
- Cooperman, David, and Walter, E. V. Power and Civilization. New York: Thomas Y. Crowell Company, 1966.
- Davis, Jerome. Contemporary Social Movements. New York: The Century Company, 1930.
- Elman, Richard. The Poorhouse State: The American Way of Life on Public Assistance. New York: Pantheon Books, 1966.
- Famous Utopias. New York: Tudor Publishing Company, 1901.
- Friedman, Milton. Capitalism and Freedom. Chicago: The University of Chicago Press, 1962.
- Galbraith, John Kenneth. The Affluent Society. New York: A Mentor Book, 1958.
- Gordon, Margaret S. (ed.). Poverty in America. San Francisco: Chandler Publishing Company, 1965.
- Keiser, Norman F. Macroeconomics, Fiscal Policy, and Economic Growth. New York: John Wiley & Sons, Inc., 1964.
- Keynes, John Maynard. The General Theory of Employment, Interest, and Money. New York: Harcourt, Brace and Company, 1935.
- Long, Huey P. Every Man A King. New Orleans: National Book Company, Inc., 1933.

- Maxwell, James A. Fiscal Policy. New York: Henry Holt and Company, 1955.
- Mueller, M. G. (ed.). Readings in Macroeconomics. New York: Holt, Rinehart and Winston, Inc., 1965.
- Mumford, Lewis. The Story of Utopias. New York: Boni and Livewright, 1962.
- Peacock, Alan T. The Economics of National Insurance. Edinburgh: William Hodge and Company, Ltd., 1952.
- Ross, Arthur M. (ed.). Employment Policy and the Labor Market. Berkeley: University of California Press, 1965.
- Russell, Bertrand R. Proposed Roads to Freedom. New York: Henry Holt and Company, 1919.
- Theobald, Robert. Free Men and Free Markets. New York: Doubleday and Company, Inc., 1965.
- \_\_\_\_\_ (ed.). The Guaranteed Income--Next Step in Economic Revolution? New York: Doubleday and Company, Inc., 1966.
- Von Mises, Ludwig. Bureaucracy. New Haven: Yale University Press, 1946.
- \_\_\_\_\_. Omnipotent Government. New Haven: Yale University Press, 1944.
- Westmeyer, Russell E. Modern Economic and Social Systems. New York: Farrar & Rinehart, Inc., 1940.
- Witte, Edwin E. Social Security Perspective. Edited by Robert J. Lampman. Madison: University of Wisconsin Press, 1962.

PUBLICATIONS OF THE GOVERNMENT, LEARNED  
SOCIETIES, AND OTHER ORGANIZATIONS

- Achinstein, Asher. The Welfare State. The Library of Congress Legislative Reference Service Public Affairs Bulletin No. 83. Washington: U. S. Government Printing Office, 1950.
- Chamber of Commerce of the United States. The Guaranteed Wage. Washington, D. C., 1953.
- Conference on Economic Progress. Two Top-Priority Programs to Reduce Unemployment. Washington: Conference on Economic Progress, 1965.

- Goode, Richard. The Individual Income Tax. Washington: The Brookings Institution, 1964.
- Lewis, Wilfred. Federal Fiscal Policy in the Postwar Recessions. Washington: The Brookings Institution, 1962.
- Nicol, Helen O. "Guaranteed Income Maintenance: Negative Income Tax Plans." Welfare in Review, Vol. 4, No. 4. U. S. Department of Health, Education, and Welfare. Washington: U. S. Government Printing Office, 1966.
- Orshansky, Mollie. "Who's Who Among the Poor: A Demographic View of Poverty." Social Security Bulletin, XXVIII, July 1965.
- Tax Foundation of Hawaii. Hawaii's Personal Income Tax Credits. A report by the Tax Foundation of Hawaii on Act 155, Session Laws of Hawaii, 1965 (November 1966).
- U. S. Bureau of the Census. Current Population Reports. P-60, No. 48, April 25, 1966.
- \_\_\_\_\_. Current Population Reports. P-60, No. 51, January 12, 1967.
- U. S. Congress. Joint Economic Committee. Higher Unemployment Rates, 1957-60: Structural Transformation or Inadequate Demand. Prepared by James Knowles. Washington: U. S. Government Printing Office, 1961.
- \_\_\_\_\_. Twentieth Anniversary of the Employment Act of 1946. 89th Cong., 2d Sess., 1966.
- U. S. Council of Economic Advisers. Economic Report of the President. 1966.
- \_\_\_\_\_. Economic Report of the President. 1964.
- U. S. Department of Commerce. Compendium of State Government Finances in 1965. 1966.
- U. S. Department of Health, Education, and Welfare. Welfare Administration. Report of the Advisory Council on Public Welfare, June 1966.
- \_\_\_\_\_. Report to the Secretary of Health, Education, and Welfare. 1966.
- U. S. Department of Labor. Manpower Report of the President. March 1966.
- U. S. House. Committee on Education and Labor. Hearings on H. R. 10440, Economic Opportunity Act of 1964. 88th Cong., 2d Sess., 1964.

U. S. National Commission on Technology, Automation, and Economic Progress. Hearings on H. R. 10310 and Related Bills. 88th Cong., 1st Sess., 1964.

\_\_\_\_\_. Technology and the American Economy. Vol. 1, February 1966.

U. S. Senate. Committee on Finance. Hearings on H. R. 6675, Social Security. 89th Cong., 1st Sess., 1965.

U. S. Statutes at Large. Public Law 304. 1947.

#### PERIODICALS

Burns, Eveline M. "Social Security in Revolution: Toward What?" A report from the Social Service Review, Vol. XXXIX, No. 2, June 1965.

Gallaway, Lowell E. "Negative Income Tax Rates and the Elimination of Poverty," National Tax Journal, XIX, No. 3 (September 1966), 298-307.

Hazlitt, Henry. "Income Without Work," The Freeman (July 1966), 21-36.

Hitch, Thomas K. "Why the Negative Income Tax Won't Work," A reprint from the July/August, 1966, issue of Challenge.

"Income Tax That Pays the Poor," Business Week (November 13, 1965), 105-7.

Klein, William A. "Some Basic Problems of Negative Income Taxation," Wisconsin Law Review, Vol. 1966: 776 (Summer 1966), 776-800.

Lampman, Robert J. "Prognosis of Poverty," Proceedings of the National Tax Association, 1964. 71-81.

"Now: A Tax Plan That Pays the Poor," U. S. News and World Report (February 14, 1966), 63.

Schwartz, Edward E. "A Way to End the Means Test." A reprint from the Journal of the N. A. S. W., Social Work, Vol. 9, No. 3 (July 1964), 1-11.

Stigler, George J. "Economics of a Minimum Wage Legislation," American Economic Review, XXXVI (June 1946), 358-65.

Tobin, James. "Improving the Economic Status of the Negro," Daedalus (Fall 1965), 891-93.

Tobin, James. "The Case for An Income Guarantee," The Public Interest, No. 4 (Summer 1966), 31-41.

"The Negative Income Tax," Financial Executive (November 1966), 10-12.

UNPUBLISHED MATERIALS

Friedman, Milton. "Transfer Payments and the Social Security System." Address before the Eighth Annual Economic Conference in New York City, New York, 1965.

\_\_\_\_\_. "The Case for the Negative Income Tax: A View From the Right." Paper presented at the National Symposium on the Guaranteed Income, Sponsored by the Chamber of Commerce of the United States. Washington, D. C., December 9, 1966.

Green, Christopher. "Transfer-By-Taxation: One Approach to Improve Income Maintenance." Unpublished Ph.D. dissertation, University of Wisconsin, Madison, Wisconsin, 1966.

"The Guaranteed Annual Wage: A Voluntarist Approach to End Poverty." An unpublished report of the New Haven Chapter, Ripon Society, December 1966.

Lampman, Robert J. "Negative Rates Income Taxation." Unpublished paper prepared for the Office of Economic Opportunity, August 1965.

\_\_\_\_\_. "The Guaranteed Minimum Income: Is It Worth What It Would Cost?" Paper prepared for the Conference on the Guaranteed Minimum Income, The School of Social Service Administration, University of Chicago, January 14-15, 1966.

Tobin, James. "Income Guarantees and Incentives." Paper presented at the National Symposium on the Guaranteed Income, Sponsored by the Chamber of Commerce of the United States. Washington, D. C., December 9, 1966.

**The vita has been removed from  
the scanned document**

**APPENDIX**



## APPENDIX

In Chapter IV an evaluation of the cost of a negative income tax plan was presented. This is a presentation of the cost of the same proposals, but conjecturing what the resulting costs may be assuming some of the cost-determining variables change.

This cost estimate is an evaluation by Robert J. Lampman of the Edward Schwartz plan. Starting with an initial cost of \$ 10.7 billion to fill the income-deficiency gap the plan specifies that claimants for benefits should be required to report an imputed income for assets above a stated amount. Such a provision could reduce the net cost either very little or by a significant amount. A guess is \$1 billion.

Then, presumably, public assistance benefits would not be applied for, nor forthcoming. This would raise the cost by \$4 billion. Also, what about social insurance and veteran's benefits that fall below the GMI level? A person would not bother to collect them only to be taxed away at 100 per cent; thus, this could increase the cost by another \$6 billion.

There might also be the incentive to dispose of property which yields an income. It also would be taxed at 100 per cent, so why not donate it to a philanthropic organization or pass it on to heirs. This might add as much as \$1 billion to the net cost, bringing our cululative total up to \$21.7 billion.

Also, we know there are the "hidden poor," i.e., people who are unwillingly dependent on others but are not counted as poor because they are members of families with combined income above the poverty lines. Since the plan is open to a head of family and detached individuals, there could be an inducement for filing separate returns. Although a conservative estimate, this could raise the cost by \$2 billion. Consider the case of family fragmentation from another standpoint. Assume, in order to benefit from such a plan, there was an induced break-up of marriages. This would allow the abandoned family allowances, plus the father would retain his former income. This is assuming the income of the family was less than \$3000 before the anti-social act. If a million fathers did this (out of about 5 million in the zero to \$4,000 income range) it would add about \$2 billion to the cost of the proposal.

If the plan encouraged some people in low-income ranges to marry earlier and to have more children it would also increase the cost. Under SSA standards a couple could receive \$2,000; whereas, if not married, their combined income would equal \$3,000; children would add \$500 each to the allowances. The addition to this cost would be \$0.5 billion if the guaranteed minimum income encouraged the population to rise a million per year above its normal advance.

The guaranteed minimum income could also induce poor family members to work less. If a person is earning \$3,000 a year by working and it costs the person to work, such as transportation, there could be an inducement to stop working--especially, if the worker knew his

income would not diminish. This could add another \$10 billion to the cost. Further, a certain number of the families in the \$3,000 to \$4,000 bracket would doubtless respond to the incentive to give up \$3,500 of wage income less \$70 in income tax and less \$105 in social security tax and less added costs of working in favor of \$3,000 for no work. If 2 million families and 1.5 million unrelated individuals responded to that inducement the cost would rise by \$8.3 billion.

Finally, the total wages foregone would, under these assumptions amount to about \$20 billion. Since the national income would decrease by this amount, taxes on the remaining taxpayers would have to go up by about \$6 billion to pay for the cost of undiminished government and to offset the loss of revenue occasioned by the foregone wages. This is based on the assumption that any wage less than \$3,000 equals a zero reward to the supplier of labor.<sup>1</sup>

Obviously, Lampman's appraisal of the plan has conjectured many assumptions and inserted "ifs." But, a review of the above, as outlined in the table, will reveal that the initial cost of \$10.7 billion. Also, whether these costs are too high will depend largely on the enforced rigidity of eligibility and the standards of reporting combined income of all family members.

---

<sup>1</sup>Robert J. Lampman, "The Guaranteed Minimum Income: Is It Worth What It Would Cost," Paper delivered at the Conference on the Guaranteed Income at the School Of Social Service Administration, University of Chicago, January 14-15, 1966, pp. 5-14.

COST OF A GUARANTEED MINIMUM INCOME WITH  
100 PER CENT TAX, \$3,000 BREAK-EVEN INCOME

(in billions of dollars)

---

(1)	Net Cost (First Approximation).....	\$10.7
(2)	Require inclusion of imputed income.....	- 1.0
(3)	Replacement of public assistance.....	4.0
(4)	Replacement of other transfer payments.....	6.0
(5)	Displacement of property income.....	1.0
(6)	Emergence of uncounted poor, family fragmentation...	2.0
(7)	Induced family abandonment.....	2.0
(8)	Induced rise in number of poor children.....	0.5
(9)	Foregone wages by present poor.....	10.0
(10)	New GMI recipients from present non-poor.....	8.3
(11)	Tax loss associated with foregone wages.....	<u>6.0</u>
(12)	Total cost associated with plan.....	38.8
(13)	Less lines (3) and (4) equals net cost.....	28.8

---

Source: Robert J. Lampman, "The Guaranteed Minimum Income: Is It Worth What It Would Cost?" pp. 5-14.

A PROPOSAL FOR A GUARANTEED MINIMUM INCOME  
BY NEGATIVE RATES TAXATION

by

Jennings Patrick Barfield

ABSTRACT

This thesis sets forth a guaranteed minimum income proposal which would close part of the "poverty gap"--the gap between the income of poor families and individuals and the income they need in order to maintain a standard of living above the poverty level. The proposal, called negative rates income taxation, combines into a single program the giving and taking of income by the federal government. The negative income tax proposal is distinguished from other guaranteed income programs in two primary respects: (1) the focus on filling part of the poverty gap, that is, a marginal tax rate (negative) of less than 100 per cent; and (2) the emphasis upon income in relation to family size in determining whether an individual or family is eligible for allowances. This means that the benefits of the plan are income-based rather than being based upon such present characteristics as age(OASI), occupation (farm price supports), status (veterans benefits), etc.

The scope of the thesis attempts to cover the various subjects related to the negative income tax, although this is an almost impossible task. For example, subjects such as early utopian ideas,

past federal legislation, and present socio-economic problems are related to the concept of the proposal. Also, the principles of negative taxation, the cost and administration of the plan, and economic results of the plan are vital to appraising its applicability.